



THE SECRETARY OF THE NAVY  
WASHINGTON DC 20350-1000

August 29, 2016

MEMORANDUM FOR THE SECRETARY OF DEFENSE

SUBJECT: Annual Statement Required Under the Federal Managers' Financial Integrity Act for Fiscal Year 2016

As Secretary of the Navy, I recognize that the Department of the Navy (DON) is responsible for establishing and maintaining effective internal controls to meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). Tab A provides specific information on how the DON conducted the assessment of operational internal controls, in accordance with the Office of Management and Budget Circular No. A-123, Management's Responsibility for Internal Control (OMB Circular No. A-123), and provides a summary of the significant accomplishments and actions taken to improve the DON's internal controls during the past year.

The DON conducted its assessment of the effectiveness of internal controls over non-financial operations in accordance with the FMFIA and the Department of Defense Instruction 5010.40, Managers' Internal Control Program Procedures (DoDI 5010.40). Tab A-1 provides specific information on how the DON conducted this assessment. Based on the results of this assessment, the DON is able to provide a modified statement of assurance that the Internal Controls Over Non-financial Operations (ICONO) as of September 30, 2016, were operating effectively with the exception of seven material weaknesses noted in Tab B.

The DON conducted its assessment of the effectiveness of internal controls over financial reporting in accordance with OMB Circular No. A-123, Appendix A, Internal Control Over Financial Reporting. Tab A-1 provides specific information on how the DON conducted this assessment. Based on the results of this assessment, the DON is able to provide a modified statement of assurance that the Internal Controls over Financial Reporting (ICOFR) as of June 30, 2016, were operating effectively with the exception of 23 material weaknesses noted in Tab C. The annex of classified and Special Access Programs' (SAP) material weaknesses has been forwarded through special access channels and is being held at the Office of the Secretary of Defense SAP Classified Office.

The DON also conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems in accordance with the Federal Financial Management Improvement Act (FFMIA) of 1996 (Public Law 104-208) and the DoDI 5010.40. Tab A-1 provides specific information on how the DON conducted this assessment. Based on the results of this assessment, the DON is able to provide a modified statement of assurance that the Internal Controls Over Financial

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Systems as of June 30, 2016, are in compliance with the FFMIA and OMB Circular No. A-123 Appendix D, Compliance with the Federal Financial Management Improvement Act of 1996, with the exception of nine nonconformances noted in Tab D.

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for the SecNav

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FEDERAL MANAGERS'  
FINANCIAL INTEGRITY ACT

**FY 2016**  
**STATEMENT OF ASSURANCE**



DEPARTMENT OF THE NAVY

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## **TAB A-1**

### **DESCRIPTION OF THE CONCEPT OF REASONABLE ASSURANCE AND HOW THE EVALUATION WAS CONDUCTED**

The Department of the Navy (DON) mission is to maintain, train, and equip combat-ready naval forces capable of winning wars, deterring aggression, and maintaining freedom of the seas. Operationally, the DON is composed of the following organizations:

- Executive Offices in Washington, D.C.
- Operating forces, including the Marine Corps, the reserve components, and, in time of war, the U.S. Coast Guard (in peace, a component of the Department of Homeland Security).
- Shore establishment.

For purposes of assessing Internal Controls over Non-Financial Operations (ICONO), the DON considers each of its Echelon I commands a Major Assessable Unit (MAU) (refer to Internal Controls over Non-Financial Operations – Management Control Testing for a list of ICONO MAUs). For purposes of assessing Internal Control over Financial Reporting (ICOFR) and Internal Controls over Financial Systems (ICOFS), the DON considers its Budget Submitting Offices (BSOs) assessable units (refer to Internal Control over Financial Reporting – Management Control Testing for a list of BSOs).

The DON's senior management evaluated the system of internal controls in effect during the fiscal year as of the date of this memorandum, according to the guidance in Office of Management and Budget (OMB) Circular No. A-123. The OMB guidelines were issued in conjunction with the Comptroller General of the United States, as required by the "Federal Managers' Financial Integrity Act (FMFIA) of 1982". Included is our evaluation of whether the system of internal controls for the DON is in compliance with standards prescribed by the Comptroller General.

The objectives of the system of internal controls of the DON are to provide reasonable assurance of:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting;
- Compliance with applicable laws and regulations; and
- Financial information systems are compliant with the Federal Financial Management Improvement Act (FFMIA) of 1996 (Public Law 104-208).

The evaluation of internal controls extends to every responsibility and activity undertaken by the DON and applies to program, administrative, and operational controls. Furthermore, the concept of reasonable assurance recognizes that (1) the cost of internal controls should not exceed the benefits expected to be derived, and (2) the benefits include reducing the risk associated with failing to achieve the stated objectives. Moreover, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal controls, including those

limitations resulting from resource constraints, congressional restrictions, and other factors. Finally, projection of any system evaluation to future periods is subject to the risk that procedures may be inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate. Therefore, this statement of reasonable assurance is provided within the limits of the preceding description.

The DON evaluated the system of internal controls in accordance with the guidelines identified above. The results indicate that the system of internal controls of the DON, in effect as of the date of this memorandum, taken as a whole, complies with the requirement to provide reasonable assurance that the above mentioned objectives were achieved. This position on reasonable assurance is within the limits described in the preceding paragraph.

Using the following process, the DON evaluated its system of internal controls and maintains sufficient documentation/audit trail to support its evaluation and level of assurance.



## **Internal Controls over Non-Financial Operations – Management Control Testing:**

The following describes the DON's process for evaluating ICONO and the process to support its reported level of assurance.

### **Governance**

This year, the DON implemented a Managers' Internal Control Program (MICP) governance structure to align with the FMFIA and the OMB Circular No. A-123 requirements. The governance structure includes a Senior Management Council (SMC) and Senior Assessment Team (SAT).

The SMC oversees the DON MICP and advises the Secretary of the Navy (SECNAV) and the Assistant Secretary of the Navy (Financial Management and Comptroller (ASN (FM&C))) on program implementation, effectiveness, and reporting. The SMC is responsible to:

- Monitor and validate the effectiveness of the DON 's ICONO processes;
- Oversee and confirm that DON MAUs conduct annual internal control assessments to identify key control objectives which support their chartered functional responsibility;
- Designate ICONO material weaknesses, reportable conditions, and items to be revisited;
- Identify control deficiencies that merit reporting in the annual FMFIA statement of assurance;
- Monitor and review the implementation of corrective actions to ensure they are accurate and timely;
- Determine when sufficient action has been taken to validate that a material weakness or reportable condition has achieved a validation milestone; and
- Report results for implementation of corrective actions to ASN (FM&C).

The SMC is comprised of Flag Officers and Senior Executive Service (SES) members representing the MAUs. It is chaired by the Deputy Assistant Secretary of the Navy (Financial Operations) (DASN (FO)). In Fiscal Year (FY) 2016, four SMC meetings were held to discuss updates on material weaknesses reported in the FY 2015 Statement of Assurance (SOA); determine inclusion of newly identified material weaknesses in the SOA; assess the impact of OMB Circular No. A-123 updates on the FY 2017 SOA reporting; and provide an overall update on the control environment.

### **Execution**

Primary responsibility for ICONO execution resides within a network of 17 MAUs:

- Chief of Naval Operations (CNO)
- Commandant of the Marine Corps (CMC)
- Office of General Counsel (OGC)
- Assistant Secretary of the Navy for Research, Development, and Acquisition (ASN (RD&A))
- Assistant Secretary of the Navy for Financial Management and Comptroller (ASN (FM&C))

- Assistant Secretary of the Navy for Energy, Installations, and Environment (ASN (EI&E))
- Assistant Secretary of the Navy for Manpower and Reserve Affairs (ASN (M&RA))
- Deputy Under Secretary of the Navy (Management) (DUSN (M))
- Deputy Under Secretary of the Navy (Policy) (DUSN (P))
- Office of Judge Advocate General (OJAG)
- Naval Inspector General (NAVINSGEN)
- Office of Legislative Affairs (OLA)
- Office of Naval Research (ONR)
- Chief of Information (CHINFO)
- Naval Audit Service (NAVAUDSVC)
- Naval Criminal Investigative Service (NCIS)
- Office of Small Business Program (OSBP)

The DON MICP provides the required framework and guidance for MAUs to effectively implement a system of internal controls, complete assessments, and provide accurate and timely reporting. The MAUs identify the organizational objectives and the business processes used to achieve their mission. They identify the risk inherent in these business processes and the controls in effect to mitigate them. The MAUs perform control assessments to determine conditions that may significantly affect the DON's missions and objectives, and communicate their level of assurance via the certification statement. Certification statements are used as the primary source documents for the SECNAV's determination of reasonable assurance over the effectiveness of the DON's non-financial operations and processes.

The DON's 17 MAUs define their Assessable Units (AU) and direct MAU ICONO testing. Each MAU identifies the AUs that are the most critical to the MAU's mission and strategic objectives, and those with known problems identified through audits, investigations, inspections, hotlines, and self-assessments. These AUs bear the most risk for the MAU and are identified as high risk.

After identifying high risk AUs, MAUs identify the related internal controls, which are tested using the MAU's control test plan, to determine the effectiveness of the controls in place to mitigate the identified risks. High-risk AUs are included in the MAUs Managers' Internal Control (MIC) plan along with the documented assessment and monitoring methodology. The MAUs summarize the results of testing through their certification statements which are in turn submitted to the DON MICP for review and inclusion in the SOA.

During FY 2016, the DON MICP conducted training focused on the ICONO assessment lifecycle to increase effectiveness of MAU ICONO assessments. This focus on continuous improvement will continue in FY 2017 to identify and disseminate best practices, tools, templates and implementation guidance.

Material weaknesses submitted through the certification statements are presented to the SMC, which recommends those which rise to the level of a DON material weakness. The DON remediates these identified internal control deficiencies through Corrective Action Plans (CAPs) implemented by the MAUs and overseen by Senior Accountable Officials (SAOs). SAOs are



Subject Matter Experts (SMEs) for the SMC members responsible for the remediation of a particular deficiency. SAOs facilitate efforts for developing and resourcing necessary corrective actions to remediate the deficiency and provide updates on the corrective actions to SMC members via quarterly meetings.

Once the MAU completes the necessary corrective actions and sufficient run time has occurred to determine if the deficiency has been remediated, validation testing is undertaken under the supervision of the SAO. Validation testing can be conducted via external or independent reviews. Upon completion of the validation testing, artifacts and results are submitted to the MICP for review. The DON MICP review serves as the basis for the initial recommendation whether or not to close a material weakness. The SMC reviews the progress made and recommends the reporting status for the current year SOA.

### **DON-wide Assessments**

To complement the MAU self-reporting, the SMC periodically directs assessments to determine whether identified operational control deficiencies are pervasive across the DON. These assessments are the result of combined efforts of the DON MICP, NAVAUDSVC, and NAVINSGEN, which perform the quarterly control environment analysis. This analysis summarizes deficiencies identified in audit reports from the Government Accountability Office (GAO), Department of Defense Inspector General (DoDIG), and NAVAUDSVC. The findings and trends from these analyses are briefed quarterly to the SMC by the DASN (FO) and the Auditor General. As a result, the SMC directed a DON-wide equipment accountability assessment, which concluded in June 2016. Seventeen MAUs assessed a total of 44 equipment accountability deficiencies over a three phased assessment. The assessment tested the identified control deficiencies in the areas of inventory, record/document retention, data accuracy and completeness, system of record, and authorization process. Based on the analysis and the quantitative attributes associated with the deficiencies, the SMC determined equipment accountability should continue to be reported as an ICOFR material weakness.

In addition, the DON performs an annual Risk and Opportunity Assessment (ROA). The MAUs submit ROA inputs into a web-based repository application tool for review and analysis by NAVAUDSVC, NAVINSGEN, and the Inspector General of the Marine Corps. The ROA provides the MAUs an opportunity to assist the DON in identifying risks faced by the organization related to susceptibility to fraud, waste, and mismanagement; program effectiveness or inefficiency; statutory or regulatory noncompliance; and other significant areas as determined by senior leadership.

### **Outreach**

During FY 2016, the MICP continued to expand DON-wide support to managers and coordinators. These efforts included bi-weekly checkpoints with MAU MIC Coordinators, workshops, office hours, in-person meetings, and in-depth Navy specific MICP training. The training provided a crosswalk between the guidance provided in OMB Circular No. A-123, Department of Defense Instruction (DoDI) 5010.40, and Secretary of the Navy Instruction (SECNAVINST) 5200.35F.

Training developed and deployed during FY 2016 includes:

- MIC 101: Managers' Internal Control Program Overview Training: Provides an introduction to the DON MICP along with an explanation of guidance.
- MIC 201: Managers' Internal Control Program Lifecycle Training Part 1 of 2: Focuses on identifying objectives, business processes, and risks.
- MIC 202: Managers' Internal Control Program Lifecycle Training Part 2 of 2: Focuses on implementing controls, testing controls, and reporting on assurance.
- MIC 301: Overview of updated OMB Circular No. A-123, Enterprise Risk Management (ERM), and Fraud Risk Framework: Provides an overview of the updated draft OMB No. A-123 along with an introduction to ERM and GAO's Fraud Risk Framework.

The DON MICP performed site visits to MAUs to the involvement in key activities, including certification statement submission and the DON-wide assessments disseminated by the control environment analysis team. These visits served as an opportunity for MAUs to provide insight to the operational effectiveness and efficiency of their programs. The enhanced communications and training reinforced MICP principles and provided coordinators additional knowledge and skills to effectively execute the program across their MAUs.

## **Internal Control over Financial Reporting – Management Control Testing:**

In FY 2016, the DON continued to build upon prior year progress in improving ICOFR. The DON maintains focus on its audit objectives and understands that a robust internal control program is key to success and sustainability in an audit environment. The DON has made internal controls a cornerstone of its audit readiness program and a key input to its many audit related initiatives.

FY 2015 marked a milestone in the DON's audit readiness activities with the completion of the first Schedule of Budgetary Activity (SBA) audit. The DON is now executing its beginning balance approach to achieve audit readiness over all principal financial statements, including: the Balance Sheet, Statement of Budgetary Resources, Statement of Net Costs, and Statement of Changes in Net Position. The DON's ICOFR program implements OMB Circular No. A-123, Appendix A, *Internal Control Over Financial Reporting*, through three key tenets: (1) integration of interrelated testing efforts, (2) expansion of the sphere of accountability across the enterprise, and (3) implementation of strong oversight and program governance.

The following BSOs are included as AUs in the DON's assessment of ICOFR:

- Navy Bureau of Medicine and Surgery (BUMED)
- Bureau of Navy Personnel (BUPERS)
- Commander, Navy Installations (CNIC)
- Department of the Navy Assistant for Administration (DON/AA)
- Fleet Forces Command (FFC)
- Field Support Activity (FSA)
- Military Sealift Command (MSC)
- Naval Facilities Engineering Command (NAVFAC)
- Naval Sea Systems Command (NAVSEA)
- Naval Supply Systems Command (NAVSUP)
- Naval Intelligence Activity (NIA)
- Navy Systems Management Activity (NSMA)
- Office of Naval Research (ONR)
- Commander, U.S. Pacific Fleet (PACFLT)
- Commander, Navy Reserve Forces (RESFOR)
- Space and Naval Warfare Systems Command (SPAWAR)
- Naval Special Warfare Command (SPECWAR)
- Strategic Systems Programs
- United States Marine Corps (USMC)

### **Integration of Testing Efforts**

The DON leverages its audit readiness and other governance programs to test business processes and account balances and validate that key financial reporting controls are in place and operating effectively. Validating control effectiveness helps the DON assess and prioritize its audit and financial reporting resources to the best and most effective uses. The DON uses the following programs to carry out control testing and evaluation:

- Audit Readiness testing through the Impartial Verification and Validation (IV&V) effort;
- Evaluation, Prioritization, and Remediation (EPR) validation of implemented corrective actions;
- Business Process Improvement (BPI); and
- Command-Level Sustainment Testing.

As the DON's reporting environment matured through the Financial Improvement and Audit Readiness (FIAR) program, the DON recognized the need to determine how the results would stand up to the rigor and stress of audit testing. To assess the reliability of its financial operations, the DON established an IV&V effort in FY 2016 and began applying industry accepted audit procedures to test balance sheet line items. The result of IV&V testing provided the DON with an enhanced view of the issues that remained in its account balances and identified where controls were still lacking. In June 2016, the DON completed the first phase of IV&V testing, which produced a number of Notice of Findings and Recommendations (NFRs) over several material balance sheet lines.

In parallel with the IV&V testing efforts, the DON began to remediate findings and control deficiencies identified through the FY 2015 SBA audit. As key financial processes were updated and controls were either enhanced or established for the first time, the EPR effort conducted validation procedures. The validation procedures were risk-based tests to determine if sufficient evidence existed to close the findings and submit for testing by an Independent Public Auditor (IPA). The results of the validation procedures helped inform the closure of findings and substantiated the existence of an improved control environment that sufficiently mitigates risk to levels acceptable by management.

During FY 2016, the EPR Program's key focus was managing the response and corrective action processes for the identified NFRs resulting from the FY 2015 SBA audit. Specifically, the EPR Program managed and executed the following key tasks related to FY 2015 NFRs:

- Facilitated coordination with key stakeholders (i.e., BSOs, System Owners, Shared Service Providers (SSPs), etc.) to provide formal responses to the IPA on identified NFRs;
- Supported the assignment of an Office of Primary Responsibility (OPR) for each NFR to establish accountability for driving corrective action development and implementation;
- Implemented a prioritization methodology to assess the magnitude and likelihood of occurrence of potential financial statement misstatement resulting from the identified NFRs;
- Developed standardized CAP templates to consistently track and report data elements across NFRs;
- Performed validation testing to assess the design of completed CAPs against the root cause of the NFR and communicated status to the IPA.

Along with the audit readiness and remediation testing efforts, the DON continued to mature its business processes and controls through the BPI function. Initially launched to standardize business processes across the DON's Commands, the BPI function ensures the sustainment of all the DON's business processes through the use of a Change Control Board (CCB). The DON's

BSOs participate in monthly CCB meetings designed to obtain concurrence on all Change Requests (CRs) submitted during the prior month. Validation of conformance to the enterprise standard assists the DON in reducing risk among similar transactions and financial events. Validation of the DON's documentation helps reduce process variation, standardizes transaction control activities, and improves the overall control environment.

While significant activity is performed at the Office of Financial Operations (FMO) level, the DON's control program is dependent on Command-level testing to support the assertion of controls at the transaction level. Commands assess their specific risk levels and under FMO leadership design control tests to validate that key financial reporting controls are designed and operating effectively. Testing at this level is a necessary complement to testing performed at the enterprise level by the FMO.

Through the various testing and evaluation programs, the DON is able to obtain a holistic view of its business process performance and control effectiveness. Beginning with the Commands that are responsible for executing and validating key transaction-level controls and ending with the IV&V testing of the results, the DON achieves comprehensive coverage of key controls.

### **Expanding the Sphere of Accountability**

Accountability for results and outcomes is critical to any program's success. The DON established a new business practice which assigns an accountable official, at the SES or Flag Officer level, to be the OPR. Their charge is to address FY 2015 SBA NFRs by driving corrective action development and implementation. The OPR executes this charge by facilitating the collaboration and communication necessary among senior leaders and major stakeholders supporting CAP implementation and resource allocation. OPRs also manage a Plan of Action & Milestones to track the timely execution of required remediation steps and escalate potential challenges to senior leadership, which expedites the adjudication process and prevents delays in implementation. The DON further drives ownership and accountability down to the lowest level of the organization by placing the responsibility for control execution at the working level. Driving participation in the ICOFR program to all levels enhances accountability for results and helps maintain focus on risk mitigation. As a performance based organization, the DON requires BSOs to participate in the program by documenting results and identifying performance trends over time.

To ensure the DON obtains a sustainable business environment and achieves an appropriate level of accountability across the organization, a "Tone from the Top" (leadership) message has emphasized the following:

- Everyone plays a vital role;
- Enforcement of business practices with strong internal controls;
- Standardization support of business activities and process documentation; and
- Document retention.

### **Implementing Strong Oversight and Program Governance**

Strong program oversight and governance is critical to ensuring the ICOFR program meets intended objectives and reduces the DON's reporting risk. To assess the design and operating effectiveness of internal controls in accordance with OMB Circular No. A-123, the DON established an SMC as the MICP oversight body. As a subset to the SMC, the DON also established an SAT to focus on ICOFR and ICOFS. The SAT is primarily comprised of BSO Comptrollers or senior financial managers and advisors to the Service Chief, Commander, or Commanding Officer. The Senior Assessable Unit Managers for Office of the Secretary of Defense (OSD) aligned business segments provide input as appropriate.

The SAT instills proper oversight and program governance by assisting BSOs in risk identification and analysis and aligning testing efforts to enterprise risk areas. The SAT will monitor, validate, and provide recommendations on the effectiveness of ICOFR and ICOFS programs to the ASN (FM&C) through the SMC. Furthermore, the SAT monitors and approves all ICOFR material weaknesses and related CAPs, emphasizing an enterprise-wide culture of robust internal controls that produces timely, accurate, and reliable financial reporting.

### **Program Successes**

Through audit readiness and other testing efforts, the DON recognized the need for greater oversight and accountability over Journal Vouchers (JVs) performed by its SSP. For FY 2016, the DON successfully implemented a new JV review procedure for JVs greater than \$1 billion. Implementation was a significant undertaking as it required close coordination and communication with the SSP and substantial analysis to document the process and institutionalize as a repeatable control.

In addition to the control over SSP JVs, the DON also enhanced oversight of Field Level JVs performed at the BSO level. Prior to FY 2016, Field Level JVs were not routinely logged and monitored by a centralized group. The FMO instituted new procedures requiring Commands to submit JV logs on a monthly basis and leverages the logs to perform substantive testing procedures over a judgmental sample on a monthly basis. Improved insight not only enhances the controls over manual adjustments to Command trial balances but also assists the DON in recognizing gaps in the business processes and system limitations that increase reporting risk.

Through the IV&V procedures, the DON has identified balance sheet issues and continues to perform remediation efforts to develop Generally Accepted Accounting Principles compliant beginning balances. As balance sheet adjustments are identified, the DON performs root cause analysis to determine methods for preventing similar challenges in the future. This will result in the identification of new control activities to mitigate financial reporting risks observed through balance testing.



## **Internal Controls over Financial Systems – Management Control Testing:**

The DON made considerable progress during the FY 2016 reporting period towards improving ICOFS. In conjunction with the OSD and service providers, we continue to assess relevant financial system controls to ensure compliance with OMB Circular No. A-123, Appendix D, and compliance with the FFMIA. ICOFS is the foundation of auditability for financial statements. Consequently, the following ICOFS efforts to facilitate an auditable financial systems environment are underway. The SAT is the governing body for ICOFS deficiencies in FY 2017.

### **Universe of Information Technology (IT) Systems**

The DON established an inventory of Navy IT systems relevant to its financial statements, including key service provider-owned systems to document the flow of financial data through its IT systems. The DON continues to refine the universe of IT systems by developing clearly defined scoping criteria and closely examining the systems environment. This audit relevant methodology includes the review of key controls and system functionality to assess the materiality to financial reporting and audit readiness. This inventory of relevant systems forms the basis for the DON's IT control improvement framework.

### **Assessments of Key Financial Systems**

Beginning in FY 2013, the DON started a multi-phased third party approach to assess controls for 34 key financial systems, to develop CAPs and to remediate identified deficiencies. These assessments provided a comprehensive view of the effectiveness of IT controls and focused on identifying deficiencies. In July 2015, the DON shifted focus towards validation of implemented CAPs. To date, 695 CAPs have been developed, of which 55% (385) have been remediated and closed. Nine of 34 (26%) key financial systems have remediated all identified deficiencies. Efforts to complete all CAPs for the key financial systems continue to progress concurrently with the remediation of deficiencies identified during the 2015 SBA Audit.

### **Assessments of Ancillary Systems**

The DON has also dedicated considerable resources to the improvement of controls associated with ancillary systems deemed relevant to financial reporting. These systems constitute financial and asset management systems with an impact on the financial statement that falls below established audit thresholds, but which still play a role in the preparation of the Navy's financial statements. These systems underwent a self-assessment of IT controls, using a self-guided, workbook approach, and leveraging the findings and lessons learned from third party assessments of key systems. The DON introduced initiatives to standardize IT controls across the financial system IT enterprise and sustain those improvements over the annual accreditation cycle. As a result of this new strategy, both Third Party and Self Assessments were discontinued.

### **IT Control Governance**

The DON continued the work of the Financial Information System Working Group (FISWG), co-chaired by designees from the ASN (FM&C) and The DON Chief Information Officer (CIO). The FISWG addressed enterprise IT control guidance for National Institute of Standards and Technology (NIST) Control Families, funding for IT controls/audit requirements, and the Risk Management Framework (RMF) transition. As a result of this effort, the ASN (FM&C), ASN

(RD&A), and the Deputy Under Secretary of the Navy/Deputy Chief Management Officer issued a joint memorandum entitled, “Auditability of Financial IT Systems and Transition to RMF.” This memorandum synchronizes the Navy’s transition to RMF and the lessons learned from the IT controls assessments of key financial systems by directing the development of supplemental NIST control guidance. This “best practice” Enterprise IT Control Guidance was published in December 2015 and disseminated to the appropriate System Owners. These 18 guidebooks provide supplemental financial statement audit-based guidance for the control families identified in NIST SP 800-53 Rev.4. System Owners will utilize this guidance in conjunction with the RMF process to standardize practices across the DON to comply with financial statement audit standards, improve the control environment, and ensure integrity of the data.

### **Sustainment of Financial Management Improvements to RMF**

To improve the IT control environment for financially relevant systems, the Office of Financial Policy and Systems (FMP) developed a Financial Management (FM) Overlay to the Department of Defense (DoD) RMF. The FM Overlay aids in developing risk management strategies to address their specific protection needs for systems with financial impact within defined risk tolerances identified by each respective system owner. These risk management strategies were developed by leveraging the NIST, Federal Information System Controls Audit Manual (FISCAM), and the DON Enterprise IT Controls Standards. The implementation of the FM Overlay supports the RMF Transition Initiative. The FM Overlay encompasses additional security requirements applicable to assessing FM information systems. The FM Overlays are built as a fully-specified set of security controls, control enhancements, and supplemental guidance derived from the application of NIST Special Publication 800-53 Rev. 4, and DON Enterprise IT Control Standards. The FM Overlays are specific to the following control families: Access Control, Audit and Accountability, Configuration Management, and Identification and Authentication. The FM Overlay is comprised of the controls that reference policies and procedures for the remaining 14 NIST control families (i.e., Security Assessment Policies and Procedures; Risk Assessment Policies and Procedures). The DON will partner with System Owners during the implementation of the six steps of the RMF. The FMP Support Team will be part of this process to provide input and guidance throughout the RMF lifecycle of financially relevant systems.

### **Information System Continuous Monitoring**

Information System Continuous Monitoring (ISCM) is crucial to the success of the implementation of the RMF Transition. With the implementation of the ISCM Strategy, each System Owner will be responsible for testing one third of the security controls annually to ensure that the information system security posture is at an acceptable risk level. The DON will partner with System Owners to ensure FM Overlay controls, which are deemed as key controls by the FMP, are tested on an annual basis. These control families include: Access Control, Audit and Accountability, Configuration Management, Identification and Authentication, and all controls for policies and procedures. Additionally, one third of the remaining fourteen control families that are not a part of the annual scope will be tested annually by the FMP Continuous Monitoring Team with the intent of assessing all controls within a three year period.

**Audit Findings from DoDIG, NAVAUDSVC, and GAO:**

Findings that are deemed material weaknesses are reported in the table below:

<b>Dates of Reports</b>	<b>Description of Findings</b>	<b>Assessable Unit</b>	<b>Inspection Entity</b>	<b>Is the Finding listed as one of the Material Weaknesses in Tabs B through D?</b>
7/2/2015	DoDIG-2015-141 (Contract Management): Contracting Officials did not effectively administer and award task orders in accordance with Federal requirements to ensure fair and reasonable price to the Federal government.	CNO	DoDIG	Yes
8/12/2015	DoDIG-2015-161 (Contract Management): The DON contracting personnel did not consistently comply with the Berry Amendment and the Buy American Act to ensure goods from suppliers were produced within the United States to avoid potential Anti-Deficiency Act (ADA) violations.	CNO	DoDIG	Yes
7/16/2015	N2015-0026 (Personally Identifiable Information (PII)): System Authorization Access Request-Navy forms were not fully completed or accurate, enabling personnel the ability to access personal data with highly sensitive PII.	CNO	NAVAUDSVC	Yes
7/23/2015	N2015-0027 (PII): Implementation of the DON CIO policy to ensure the destruction of PII and sensitive DON data from hard drives was not consistently executed.	DUSN (M)	NAVAUDSVC	Yes

<b>Dates of Reports</b>	<b>Description of Findings</b>	<b>Assessable Unit</b>	<b>Inspection Entity</b>	<b>Is the Finding listed as one of the Material Weaknesses in Tabs B through D?</b>
11/10/2015	DoDIG-2016-019 (Contract Management): Documentation to support the justifications to exclude small businesses as a prime contractor and subcontracting reporting are not retained and justified in accordance with the Small Business Act and Federal Acquisition Regulation (FAR) requirements.	CMC	DoDIG	Yes
11/3/2015	N2016-0001 (Contract Management): The administration of contracts and task orders are not effectively monitored in accordance with FAR requirements.	CNO	NAVAUDSVC	Yes
11/18/2015	N2016-0004 (Contract Management): The administration of service contracts is not managed effectively in accordance with the FAR and DON requirements.	CNO	NAVAUDSVC	Yes
11/18/2015	GAO-16-46 (Contract Management): The reporting and the retention of supporting documentation to justify the need for contractors to perform inherently government functions is reported timely and maintained.	CNO	GAO	Yes
12/10/2015	N2016-0008 (Contract Management): The DON did not request, as an internal control measure, semi-annual audits of progress payments from Defense Contract Audit Agency as required by SECNAVINST.	CNO	NAVAUDSVC	Yes

<b>Dates of Reports</b>	<b>Description of Findings</b>	<b>Assessable Unit</b>	<b>Inspection Entity</b>	<b>Is the Finding listed as one of the Material Weaknesses in Tabs B through D?</b>
12/14/2015	GAO-16-80 (Contract Management): Ineffective resource management created overwhelming contracting workloads for contracting personnel, creating delays and the inability for new contracts to be awarded to support mission related technology systems and modernization updates timely.	CNO	GAO	Yes
12/16/2015	N2016-0011 (Contract Management): Service Requirements Review Board (SRRB) process did not always sufficiently identify, validate, assess, plan, and monitor all service requirements/ acquisitions. The DON issued vague guidance concerning the implementation of the SRRB process.	CNO	NAVAUDSVC	Yes
12/17/2015	N2016-0012 (Contract Management): Contract administration of service contracts are not managed effectively in accordance with FAR requirements to mitigate the risk of ADA violations.	CNO	NAVAUDSVC	Yes
12/29/2015	N2016-0013 (PII): Internal controls are not in place to safeguard and dispose of equipment containing PII and Protected Health Information in accordance with the Privacy Act of 1974 and Health Insurance Portability and Accountability Act.	CNO	NAVAUDSVC	Yes

<b>Dates of Reports</b>	<b>Description of Findings</b>	<b>Assessable Unit</b>	<b>Inspection Entity</b>	<b>Is the Finding listed as one of the Material Weaknesses in Tabs B through D?</b>
3/3/2016	GAO-16-71 (Contract Management): Shipbuilders should not have been paid to repair their own defects. The DON did not document a clear objective for using a guaranty and did not provide a Standard Operating Procedures (SOP) to implement a guaranty.	DON	GAO	Yes
3/18/2016	DoDIG-2016-063 (Contract Management): Contracting Officer's Representative (COR) responsibilities were not retained by the Contracting Officer or properly delegated.	CNO	DoDIG	Yes
3/23/2016	N2016-0022 (Contract Management): Internal controls over the management of contracts were not operating effectively, and the contracts were not administered in accordance with applicable laws and regulations; specifically (1) sensitive contract documents were not properly safeguarded against unauthorized use; (2) CORs were not properly appointed; (3) Quality Assurance Surveillance Plans were not developed, and; (4) COR files were insufficient.	CMC	NAVAUDSVC	Yes



<b>Dates of Reports</b>	<b>Description of Findings</b>	<b>Assessable Unit</b>	<b>Inspection Entity</b>	<b>Is the Finding listed as one of the Material Weaknesses in Tabs B through D?</b>
5/31/2016	DoDIG-2016-093 (Contract Management): Contracting officials did not obtain fair and reasonable prices on spare parts. The FAR requires contracting officials to use cost analysis when certified cost or pricing data are required for noncommercial spare parts. Contracting officials should use price analysis to verify that the overall price offered is fair and reasonable.	CNO	DoDIG	Yes
5/26/2016	N2016-0034 (Depot Level Maintenance): Commander US Pacific Fleet did not accurately report their FY 2015 Depot Maintenance Workload Distribution Report.	CNO	NAVAUDSVC	Yes
5/19/2016	N2016-0033 (Depot Level Maintenance): Strategic Systems Program did not accurately report their FY 2015 Depot Maintenance Workload Distribution Report.	CNO	NAVAUDSVC	Yes
4/8/2016	N2016-0024 (Depot Level Maintenance): U.S. Fleet Forces Command did not accurately report their FY 2015 Depot Maintenance Workload Distribution Report.	CNO	NAVAUDSVC	Yes
4/6/2016	N2016-0023 (Depot Level Maintenance): USMC did not accurately report their FY 2015 Depot Maintenance Workload Distribution Report.	CMC	NAVAUDSVC	Yes

<b>Dates of Reports</b>	<b>Description of Findings</b>	<b>Assessable Unit</b>	<b>Inspection Entity</b>	<b>Is the Finding listed as one of the Material Weaknesses in Tabs B through D?</b>
11/9/2015	N2016-0002 (Depot Level Maintenance): CNO did not accurately report their Depot Maintenance Workload Distribution Report.	CNO	NAVAUDSVC	Yes
9/29/2015	N2015-0040 (Depot Level Maintenance): USMC did not accurately report their FY 2014 depot maintenance workload allocation.	CMC	NAVAUDSVC	Yes
8/27/2015	N2015-0033 (Depot Level Maintenance): Over and under-reporting of amounts, and misclassifications between the public and private sector discrepancies totaling \$7.73 million were identified.	CNO	NAVAUDSVC	Yes
8/12/2015	N2015-0031 (Depot Level Maintenance): NAVSEA did not accurately report their FY 2014 depot maintenance workload allocation.	CNO	NAVAUDSVC	Yes
7/24/2015	N2015-0028 (Depot Level Maintenance): Over and under-reporting of amounts, and misclassifications between the public and private sector discrepancies totaling \$1.8 million were identified.	CNO	NAVAUDSVC	Yes
7/10/2015	N2015-0025 (Depot Level Maintenance): Over and under-reporting of amounts, and misclassifications between the public and private sector discrepancies totaling \$24.7 million were identified.	CNO	NAVAUDSVC	Yes
1/14/2015	N2015-0009 (Depot Level Maintenance): FY 2013 depot maintenance data was inaccurately reported.	CNO	NAVAUDSVC	Yes

<b>Dates of Reports</b>	<b>Description of Findings</b>	<b>Assessable Unit</b>	<b>Inspection Entity</b>	<b>Is the Finding listed as one of the Material Weaknesses in Tabs B through D?</b>
9/8/2014	GAO-14-777 (Depot Level Maintenance): The DON did not comply with the DoD 2014 Biennial Core Report. Specifically, information on core capability requirements, planned workload, and explanations and mitigation plans any shortfalls were incomplete.	DON	GAO	Yes
3/22/2015	USMC NFR 2014-FR-034 (SSP Oversight): USMC has inadequate controls over Military Pay service providers.	CMC	IPA	Yes
2/25/2016	DoDIG-2016-054 (SSP Oversight): The Invoicing, Receipt, Acceptance and Property Transfer controls administered by the Navy, also referred to as Complementary User Entity Controls, were not designed or operating effectively.	CNO	DoDIG	Yes

<b>Dates of Reports</b>	<b>Description of Findings</b>	<b>Assessable Unit</b>	<b>Inspection Entity</b>	<b>Is the Finding listed as one of the Material Weaknesses in Tabs B through D?</b>
10/13/2015	Ineffective Controls over Financial Reporting, specifically: Controls to ensure the completeness and accuracy of the Navy's transactions and account balances in the General Ledger Accounting System are not in place or are not operating effectively; Controls over the preparation of the SBA Schedule and the supporting transactional detail, including the Navy's controls over its service provider, are not effective; Controls over JV need improvement; and Controls over Fund Balance with Treasury reporting and reconciliations, including the Navy's related controls over its third-party service provider, need improvement.	Navy	IPA	Yes
10/13/2015	Ineffective Transactional Controls, specifically control deviations or substantive errors and lack of supporting documentation to adequately substantiate transactions.	Navy	IPA	Yes
10/13/2015	Ineffective Controls over IT, specifically deficiencies associated with: security management; account management; logging and monitoring; segregation of duties; configuration management; interfaces; and controls over third -party systems.	Navy	IPA	Yes

### **The DON's Anti-Deficiency Act Violations:**

In FY 2016, the DON reported three ADA violations to the President through the Director of the OMB, Congress, and the Comptroller General of the United States. The FMFIA stipulates that the following information for reportable ADA violations is provided:

<b>Title</b>	Marine Corps Base Camp Lejeune Joint Maritime Training System		
<b>Case Number</b>	N 14-01	<b>Violation Amount</b>	\$7,854,818
<b>Appropriation and Treasury Appropriation Symbol</b>			
<ul style="list-style-type: none"> <li>• Procurement, Marine Corps (17 1 1109)</li> <li>• Operation and Maintenance, Marine Corps (17 1 1106)</li> </ul>			
<b>Type of Violation and United States Code Section</b>			
<ul style="list-style-type: none"> <li>• Section 1301 of Title 31, United States Code (U.S.C.), Purpose Statute</li> <li>• Section 1341 of Title 31, U.S.C., Limitations on Expending and Obligating Amounts</li> <li>• Section 2801 of Title 10, U.S.C., Military Construction Definitions</li> </ul>			
<b>Audit report title, number, date, and agency (if identified by an audit)</b>			
N/A			
<b>Violation Description</b>			
<p>The USMC improperly used funds for the award of a firm fixed price contract for the acquisition and installation of a relocatable building, the "Joint Maritime Training System", aboard Marine Corps Base Camp Lejeune. USMC used FY 2011 procurement funds in the amount of \$7,111,305 to finance the procurement and installation of a supposed relocatable training facility that would simulate a shipboard scenario to prepare the Marine Expeditionary Unit Special Operations Capable forces in vessel boarding search and seizure tactics. This project, including site preparation requirements, should have been classified as a major military construction. This activity violated Title 31 U.S.C. § 1301(a), as to purpose, and Title 31 U.S.C. § 1341(a)(1)(A) as to funds availability.</p>			
<b>Status of planned and completed corrective actions as a result of the ADA violation</b>			
<p>The Deputy Commander, Resource Management and Assistant Commander of Contracts and Head of the Contracting Activity issued orders to require all contracts and financial management personnel to complete the Defense Acquisition University construction training course 244. This course focuses on construction contracting issues involving acquisition planning, contract performance management, funding, environmental concerns, construction contract language, and construction contracting in the commercial setting; the Davis-Bacon Act; design/build, basic schedule delay analysis, constructive changes, acceleration, and construction contract quality management.</p> <p>Employees involved in financial and acquisition initiatives have received supplemental training concerning military construction efforts and what constitutes an ADA violation. This training is established in addition to existing DON Fiscal Law and Budget Execution Courses. Additional information on construction efforts, as well as lists of tripwire issues have been placed on the Marine Corps Systems Command's Fund Certifier SharePoint Site for easy reference. There is no appropriation available to the DON to make an accounting correction.</p>			

<b>Title</b>	Naval Support Activity Bahrain, Isa Air Base Electrical Distribution System (EDS)		
<b>Case Number</b>	N 14-02	<b>Violation Amount</b>	\$1,572,952
<b>Appropriation and Treasury Appropriation Symbol</b>			
<ul style="list-style-type: none"> <li>• Operation and Maintenance, Navy (17 0 1804)</li> <li>• Operation and Maintenance, Navy (17 1 1804)</li> </ul>			
<b>Type of Violation and United States Code Section</b>			
<ul style="list-style-type: none"> <li>• Section 1301 of Title 31, U.S.C., Purpose Statute</li> <li>• Section 1341 of Title 31, U.S.C., Limitations on Expending and Obligating Amounts</li> <li>• Section 2801 of Title 10, U.S.C., Military Construction Definitions</li> </ul>			
<b>Audit report title, number, date, and agency (if identified by an audit)</b>			
N/A			
<b>Violation Description</b>			
<p>On 30 September 2010, the DON misclassified work for Special Project Program RM10-9256 as a combination project of repair and minor construction, and used FY 2010 Operation and Maintenance, Navy (OMN) funds in the amount of \$1,516,176 to finance the construction of the EDS. The misclassification resulted in a violation of Title 31, U.S.C., Section 1301(a) as to purpose; a violation of Title 10 U.S.C., Section 2805(b) concerning approval and Congressional notification of unspecified minor construction; and a violation of Title 31 U.S.C. § 1341(a)(1)(A), the ADA, due to obligating funds in excess of those available in an appropriation.</p> <p>On 28 September 2011, the DON obligated FY 2011 OMN funds in the amount of \$56,776 for 65 Isa Air Base buildings located in the Logistics Support Area (LSA) of Naval Support Activity Bahrain to provide shore power to the EDS constructed in FY 2010 for incremental construction. The 65 buildings existed in FY 2010 when the work classification for the EDS was planned and awarded. Lack of connection of the LSA buildings to the EDS in FY 2010, as part of the original scope of work in the EDS project, resulted in an incomplete and non-usable facility or incomplete and non-usable improvement to an existing facility. The FY 2010 minor construction project did not produce a complete and usable utility system and the obligation of FY 2011 OMN funds resulted in one violation of 10 U.S.C. § 2801.</p>			



### **Status of planned and completed corrective actions as a result of the ADA violation**

The Principal Deputy, Office of the ASN (EI&E) notified the Subcommittees on Military Construction, Veteran Affairs, and Related Agencies that under the authority contained in 10 USC §2805 the DON plans to provide Unspecified Minor Construction funding for EDS expansion at Naval Support Activity Bahrain.

The Naval Facilities Engineering Command (NAVFAC) engineering major Command promulgated Naval Engineering Training and Operating Procedure and Standard (NETOPS) #18. This training and SOPs were issued for formalizing the process for the acceptance of funding documents by NAVFAC Comptrollers and documented the requirements for project development for projects exceeding \$500,000. This effort was undertaken to help NAVFAC comply with the ADA. The instruction is strictly adhered to for all special project funding, and serves as governance for funds acceptance greater than \$500,000. Significantly, the NETOPS requires the use of a project Department of Defense Form (DD Form) 1391, Military Construction Project Data, for all projects over \$500,000.

NAVFAC Atlantic (LANT) developed a computer based ADA training course to aid personnel involved in the development and execution of projects and to better comprehend ADA principles. The training is a requirement for all LANT area of responsibility personnel involved with financial and acquisition initiatives. The training includes practical exercises and well-designed examples to develop and maintain an awareness of funding limitations and constraints as they relate to NAVFAC execution.

<b>Title</b>	Naval Postgraduate School (NPS)		
<b>Case Number</b>	N 14-03	<b>Violation Amount</b>	FY 2009 \$23,025.77 FY 2010 \$6,474.19 FY 2011 \$5,015.14 FY 2012 \$10,086.00 FY 2013 \$8,388.55
<b>Appropriation and Treasury Appropriation Symbol</b>			
<ul style="list-style-type: none"> <li>• Operation and Maintenance, Navy (17 0 1804)</li> <li>• Operation and Maintenance, Navy (17 1 1804)</li> <li>• Operation and Maintenance, Navy (17 2 1804)</li> <li>• Operation and Maintenance, Navy (17 3 1804)</li> <li>• Operation and Maintenance, Navy (17 9 1804)</li> </ul>			
<b>Type of Violation and United States Code Section</b>			
<ul style="list-style-type: none"> <li>• Five violations of section 1341(a)(1)(A) of title 31 U.S.C.</li> </ul>			
<b>Audit report title, number, date, and agency (if identified by an audit)</b>			
N/A			
<b>Violation Description</b>			
<p>The improper use of OMN appropriated funds to provide meals and refreshments to non-DoD personnel who attended conferences, to hold receptions, and to reimburse a faculty staff member for expenses associated with buying refreshments for conference workers was not a “necessary expense” in the context of appropriations availability.</p>			
<b>Status of planned and completed corrective actions as a result of the ADA violation</b>			
<p>Corrective actions have been completed. NPS has discontinued the general practice of approving the use of appropriated funds to pay for meals and beverages at conferences, meetings, and seminars. With regard to exceptions to the general rule that food is a personal expense, NPS strictly follows policy issued by the Office of ASN (FM&amp;C) in a May 12, 2006 memorandum, Use of Appropriated Funds to Purchase Food for Events and Clarification of Rules for Conference Fees, for the following recognized exceptions: Award Ceremonies (Graduation and Award) and Cultural Awareness Ceremonies. With regard to community and public relations, international relations, and DoD protocol events, NPS follows policy issued by the SECNAVINST 7042.7K, Guidelines for Use of Official Representation Funds. This instruction implements policy contained in DoD Directive 7250.13 of June 30, 2009, Use of Appropriated Funds for Official Representation Purposes, which establishes policy for the hosting of official receptions, dinners, and similar events of official guests of the United States and the DoD. Food provided by the 'NPS Foundation' as an 'in-kind' gift is another exception in which food can be made available for conferences and meetings. These 'in-kind' gifts require prior coordination through and approval from both the NPS Office of General Counsel and the NPS President.</p>			

## TAB A-2

### SIGNIFICANT MICP ACCOMPLISHMENTS

#### Lead the Nation in Renewable Energy

**Internal Control Reporting Category:** Procurement and Acquisition

**Description of the Issue:** Energy is critical to the DON's ability to provide the global presence necessary to ensure stability, deter potential adversaries, and present options in times of crisis.

**Accomplishment:** The DON has developed policies for planning, prioritizing, selecting, and executing cost-effective energy projects in accordance with the DoD and Federal requirements that include processes for performing and documenting life-cycle costs and standardized methods for estimating project costs and energy savings. SECNAVINST and the Office of Naval Operations Instruction 4100.5E were signed in 2012 and established policy for planning, prioritizing, selecting and executing cost-effective energy projects. The DON has planned, developed, and executed energy projects consistent with the guidance contained in these instructions. The DON is making great progress in energy and sustainability; as outlined below:

- **Environmental:** ASN (EI&E) has developed a policy memorandum to clarify guidance on completing documents required per the *National Environmental Policy Act* (NEPA). The guidance will improve consistency, quality, and cost effectiveness for future Environmental Impact Statements and Environmental Assessments. The policy should lower the overall cost for compliance with NEPA by more than 10%, while improving the quality and effectiveness of the DON NEPA program.
- **Renewable Energy:** The ASN (EI&E) led Renewable Energy Program Office has completed or put into procurement more than 20 renewable energy projects that will generate more than 1.1 Gigawatts of renewable energy. These projects support the President's and Secretary of the Navy's goal to significantly expand the percentage of energy from renewable resources. The projects will enhance energy security and ensure cost effective energy solutions are available to DON installations.
- **Infrastructure Investments:** ASN (EI&E) published an improved policy for classifying capital improvement projects as either repair or construction. The policy leverages already existing authorities to provide improved flexibility for installation Commanders to accomplish repairs to aging facilities using operations and maintenance funding, instead of military construction funding. This increased flexibility allows more timely and cost effective recapitalization decisions that will lead to lower costs and increased utilization of DON facilities.
- **Fleet Readiness:** The Navy's "Great Green Fleet" is a year-long, DON initiative that demonstrates the sea service's efforts to transform its energy use. As one of the Secretary of the Navy (SECNAV)'s key energy goals, the purpose of the "Great Green Fleet" is to make sailors and Marines better warfighters, able to go farther, stay longer, and deliver

more firepower. The centerpiece of the “Great Green Fleet” is a Carrier Strike Group that deploys on alternative fuels, including nuclear power for the carrier and a blend of advanced biofuel made from beef fat and traditional petroleum for its escort ships. These biofuels have been procured by the DON at prices that are on par with conventional fuels, as required by law, and are certified as "drop-in" replacements that require no engine modifications or changes to operational procedures.

The Carrier Strike Group also uses energy efficient technologies and operating procedures, referred to as energy conservation measures, during the course of its normal operations. Throughout FY 2016, other DON platforms including ships, aircraft, amphibious and expeditionary forces, as well as shore installations, will participate in the “Great Green Fleet” by using energy efficient systems, operational procedures, and/or alternative fuel during the course of planned mission functions worldwide. Furthermore, Rim of the Pacific Exercise 2016 highlighted the connection between environmental stewardship and increased combat capability with hopes that foreign partners will find technologies and practices to adapt in their own militaries.

## **“Go for Green ®”**

### **Internal Control Reporting Category: Support Services**

**Description of the Issue:** Service members require healthy, diverse and appealing menu options afloat, pier-side, and ashore to maintain optimal mission readiness and sustain a higher quality of life.

**Accomplishment:** NAVSUP in concert with CNIC and the Fleet are implementing "Go for Green ®" which is a food identification program approved by the DoD Food and Nutrition Subcommittee to help members of the military community choose nutritious foods and beverages by labeling foods by color that depict the differences in food quality and nutrient density. DoD dining facilities that implement “Go for Green ®” categorize foods on their menus as “Green” (high-performance foods that should be eaten often), “Yellow” (moderate-performance foods that should be eaten occasionally), and “Red” (low performance foods that should be eaten rarely). A salt shaker graphic is used to measure sodium content, which enables service members to choose foods and beverages that boost their performance, readiness, and health. "Go for Green ®" leverages technology, standardizes equipment, and implements a variety of delivery options, to meet or exceed customer expectations. Furthermore, culinary specialists gain a broader technical experience that enhances their professional development.

- NAVSUP provided "Go for Green ®" marketing materials to ashore and afloat Commands. NAVSUP provided “train the trainer” instruction to Navy Food Management Teams and CNIC regional food service experts which are responsible for ensuring the fleet is properly trained. 235 of the 294 (80%) ashore and afloat activities have implemented "Go for Green ®" to date with a targeted completion by the end of FY 2016.
- During the Food Service Tactical Advancement for the Next Generation event held 2-5 May 2016, innovative food service ideas and concepts were introduced in support of the "Go for Green ®" initiative. Specifically, Sailors are researching the feasibility of growing fruits and vegetables ashore and afloat. This effort will further deliver the benefits of "Go for Green ®" by utilizing fresh ingredients in meal preparation and ensuring the Navy continues to create opportunities for sailors to make healthy choices, thereby improving readiness through nutrition.
- On 16-18 May 2016, NAVSUP showcased "Go for Green ®" methodologies and products at the Navy Sea, Air, and Space Symposium held in the National Capital Region; participants learned about the benefits of "Go for Green ®".
- NAVSUP is closely monitoring "Go for Green ®" deployment, maintaining open communication with Navy stakeholders to improve implementation and sustainment of program, and codifying "Go for Green ®" compliance criteria into established policy.

## **Improved Navy Real Property Inventory, Processes, Training, and Monitoring**

### **Internal Control Reporting Category:** Property Management

**Description of the Issue:** The NAVAUDSVC examined the Navy Real Property Inventory Program's internal controls, efficiency, and compliance with laws and regulations. The audit identified errors in the identification of facility functions (category codes), the measurement of spaces, and a lack of supporting documentation to support the original cost to government for the facility.

**Accomplishment:** Throughout FY 2016, the DON has identified three components that have been implemented to strengthen the internal controls surrounding real property, guidance, compliance, and formal training.

- **Guidance:** The physical inventory process has been updated to ensure internal controls, inventory data, and supporting documentation requirements are audit ready (FIAR compliant). The revised Business Management System (BMS) B-25.7.1.2 Asset Evaluation was released in February 2016 to correct and address the NAVAUDSVC recommendations.
- **Compliance:** All material acquisition, disposal and inventory BMS processes have been updated to be audit compliant. We have expanded the real property management program to include validation and monitoring. Processes and inventory are tested every year and the tests are performed in two parts: 1) existence and completeness field tests, and 2) internal Control testing. Navy has performed exceptionally well on all Existence and Completeness tests and continues to improve on each round of Internal Controls testing. Metrics are used by leadership to track inventory currency and process compliance. These actions have resulted in a more current, accurate and supported real property inventory.
- **Formal Training and Tracking:** A FIAR real property training curriculum was developed and delivered in FY 2013 and FY 2014, and included classes on each of the 11 acquisition, inventory, and disposal processes. In addition, NAVFAC Headquarters is establishing a formal training program for the real property inventory. Naval Air Warfare Center Training Systems Division (NAWC TSD) is guiding the development of the training program. NAWC TSD is developing computer based training and job aids for the primary acquisition, disposal, and inventory processes in FY 2016. NAVFAC performed process driven training and tracked completion for 3,500 employees. NAVFAC is transitioning to computer based training and integration into Total Workforce Management Services in FY 2016.



## **Established an Overarching MICP Governance Structure**

### **Internal Control Reporting Category:** Comptroller and Resource Management

**Description of the Issue:** The DON needed to strengthen its overarching MICP governance structure to ensure senior leadership participation and oversight, and align the DON MICP with OMB Circular No. A-123 requirement.

**Accomplishment:** The FMO reviewed internal and external guidance supporting MICP and developed and implemented an overarching strategy to establish a DON MICP governance structure. This strategy was approved by the ASN (FM&C). The governance structure includes a Navy-wide SMC and SAT. The DON SMC is chaired by the DASN (FO). The Auditor General of the Navy serves as an independent advisor to the Council. Senior civilians and/or flag/general officers from the DON MAUs also serve on the SMC, as voting members.

The SMC is the governance board that oversees the MICP, which collaboratively determines department-level material weaknesses, and monitors and reviews corrective actions to ensure they are implemented promptly and accurately. The DON SMC recommends to the Secretary of the Navy (SECNAV) the non-financial operations deficiencies to report in the annual DON SOA. The SMC was established 30 September 2015; since inception, the FMO hosted six SMC meetings to discuss updates on the DON's material weaknesses reported in the FY 2015 SOA and control environment assessments, starting with equipment accountability.

The SMC oversees the DON MICP and advises the SECNAV, through the ASN (FM&C), concerning program implementation and determination of the DON ICONO material weaknesses.

The FMO established a SAT to oversee assessment and implementation of ICOFR and ICOFS. The DON SAT provides governance for ICOFR and ICOFS deficiencies, along with recommendations, through the SMC, to the SECNAV on ICOFR and ICOFS deficiencies to report in the annual DON SOA. The DON SAT is responsible for the following:

- Provide senior management oversight and ensure accountability with respect to the DON ICOFR and ICOFS;
- Assist management in implementing a framework for ICOFR and ICOFS and ERM and fostering an organizational environment that supports continuous awareness and assessment of internal control and ERM;
- Monitor, validate, and provide recommendations on the effectiveness of ICOFR and ICOFS programs to the ASN (FM&C) through the SMC;
- Emphasize an enterprise-wide culture that yields a robust internal control environment that produces timely, accurate, and reliable financial reporting;
- Ensure objectives of financial reporting and financial systems assessments are clearly communicated throughout the DON;
- Oversee the ERM process related to financial reporting and financial systems including identification and assessment of risks and the development of appropriate and risk-based internal controls.

The DON SAT is co-chaired by the DASN (FO) and the DASN (FMP). BSO Comptrollers (Senior Financial Manager and Advisor to the Service Chief, Commander or Commanding Officer) serve as voting members of the SAT. The first meeting of the DON SAT was held on 13 July 2016.

## **Establishment of NAVSUP CYBERSAFE Office**

**Internal Control Reporting Category:** Information Technology

**Description of the Issue:** NAVSUP lacked a program that provided the requirements for design, fabrication, test, procurement, material control, and operating procedures within the cyber sphere.

**Accomplishment:** The NAVSUP Program Office Audited by Office of the Chief of Naval Operations Cybersecurity Program Office and was declared to have full operational capability. The purpose of the CYBERSAFE Program is to provide maximum reasonable assurance of survivability and resiliency of critical warfighting information system and Platform Information Technology - Control System components and processes, achieved by material and software solutions plus procedural compliance, such that cyber incidents are adequately prevented, detected, analyzed, reported, responded to, and restored from, without abruptly or unexpectedly impacting mission capability.

Due to the asymmetrical and evolving nature of cyber threats, it is recognized that some cyber incidents will result in degraded mission capabilities. For that reason, operating and casualty procedures must be developed to direct the controlled and deliberate reduction of cyber connectivity either preemptively or reactively, resulting in greater cyber compartmentalization and isolation. CYBERSAFE is a vital component of the Navy's comprehensive overarching cybersecurity strategy, and therefore, CYBERSAFE Program requirements must align with, and complement the Defense-in-Depth Functional Implementation Architecture Standard. The CYBERSAFE Program provides the requirements for design, fabrication, test, procurement, material control, and operating procedures applied to select components within this architecture.

**TAB B-1**

**OPERATIONAL MATERIAL WEAKNESSES**

The following table lists the material weaknesses in Internal Controls over Non-Financial Operations (ICONO) and incorporates changes from the weaknesses reported in the FY 2015 Department of the Navy (DON) Statement of Assurance (SOA).

<b>Effectiveness of Internal Controls over Non-Financial Operations (FMFIA Section 2)</b>					
<b>Statement of Assurance: Modified Assurance</b>					
<b>Reporting Category</b>	<b>FY 2016 Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Reassessed</b>	<b>FY 2016 Ending Balance</b>
Comptroller and Resource Management	0			1 *	1
Contract Administration	2				2
Security	1				1
Acquisition	2			(1)**	1
Communications	1			(1)**	0
Manufacturing, Maintenance, and Repair	0	1			1
Personnel and Organizational Management	0	1			1
<b>Total ICONO Material Weaknesses</b>	<b>6</b>	<b>2</b>	<b>0</b>	<b>(1)</b>	<b>7</b>

\*Improper Payments was reported in the prior year as an Internal Control over Financial Reporting (ICOFR) material weakness and reclassified as ICONO material weakness for FY 2016.

\*\*Earned Value Management and Communications Security were reclassified by the Senior Management Council (SMC) as reportable conditions. These reportable conditions will be monitored by the SMC in FY 2017 as pending independent validation.

<b>Uncorrected Material Weaknesses Identified During the Period</b>			
<b>Internal Control Reporting Category</b>	<b>Description of Material Weakness</b>	<b>Targeted Correction Year</b>	<b>Page #</b>
Manufacturing, Maintenance, and Repair	<u>Depot Level Maintenance</u> There are internal control deficiencies in the DON's Depot Level Maintenance program.	1st Quarter, FY 2018	B-2-1
Personnel and Organizational Management	<u>Military Pay and Personnel</u> There is a need to strengthen controls surrounding the oversight and governance of the DON's Military Pay and Personnel.	2nd Quarter, FY 2021	B-2-3

Uncorrected Material Weaknesses Identified During Prior Periods					
Internal Control Reporting Category	Description of Material Weakness	First Year Reported	Prior Year Targeted Correction Date	Revised Targeted Correction Date	Page #
Comptroller and Resource Management	<u>DON Oversight and Management of Improper Payments</u> There are internal control weaknesses in oversight and management of the DON's improper payments.	FY 2015	4th Quarter, FY 2016	4th Quarter, FY 2017	B-2-4
Contract Administration	<u>Contract Management – Service Contracts</u> There are internal control weaknesses in three specific areas within the contract administration process; management oversight, documentation, and quality control.	FY 2012	4th Quarter, FY 2015	4th Quarter, FY 2017	B-2-5
Communications, Intelligence, and/or Security	<u>Personally Identifiable Information (PII)</u> There is a need to strengthen existing or create new PII safeguarding policies in three key areas: magnetic hard drives, Social Security Number (SSN) usage reduction, and PII awareness training.	FY 2010	1st Quarter, FY 2017	4th Quarter, FY 2017	B-2-7
Acquisition	<u>Attenuating Hazardous Noise in Acquisition and Weapon System Design</u> Insufficient processes are in place to effectively mitigate hazardous noise risks posed during the operation and acquisition of major weapon systems.	FY 2010	1st Quarter, FY 2017	4th Quarter, FY 2017	B-2-9

Uncorrected Material Weaknesses Identified During Prior Periods					
Internal Control Reporting Category	Description of Material Weakness	First Year Reported	Prior Year Targeted Correction Date	Revised Targeted Correction Date	Page #
Contract Administration	<u>Execution of Husbanding Contracts – Husbanding Service Providers</u> There are internal control weaknesses within the Navy husbanding and port services process.	FY 2015	3rd Quarter, FY 2016	4th Quarter, FY 2017	B-2-13

**Material Weaknesses Corrected During the Period:**

No ICONO material weaknesses were corrected during the period.

## TAB B-2

### OPERATIONAL CORRECTIVE ACTION PLANS AND MILESTONES

#### **Detail of Uncorrected and/or Corrected Material Weaknesses and Corrective Action Plans:**

##### **1. Depot Level Maintenance**

**Internal Control Reporting Category:** Manufacturing, Maintenance, and Repair

**Targeted Correction Date:** 1st Quarter, FY 2018

**Description of Material Weakness:** DoDI 4151.20, *Depot Maintenance Core Capabilities Determination Process* (5 January 2007) provides the directives to successfully implement and execute the requirements of depot maintenance. Multiple audit reports have identified deficiencies to include: inaccurate reporting, data discrepancies, non-compliance with established guidelines, lack of oversight and review, personnel turnover, inadequate personnel training, and absence of supporting documentation.

These deficiencies at a granular level detail are not incorporated into the President Budget submissions resulting in large unfunded Ship Depot Level Maintenance shortfalls which need to be funded through execution year reprogrammings (Threat to Resources). Navy has over-executed the enacted ship depot maintenance budget every year for seven consecutive years by a total of \$5.7B, including an estimated \$570M in FY 2016.

For Ship Depot Maintenance (SDM), Office of Budget (FMB) has prepared multiple process papers based on a deep dive to show that action is being taken. The papers address: establishment of a quarterly SDM Council, evaluation of emergent requirements, development of a re-baselining process, development of workload agreements, standardization of SDM budget exhibits, SDM budget review issue papers, identification of stakeholder non-consensus in SDM requirements, revision of the outdated Office of Naval Operations Instruction (OPNAVINST) 4700.7L (maintenance policy for U.S. Ships), improved cycle of technical foundation papers for SDM Program Objective Memorandum ship maintenance requirements, and process discipline in identifying unresolved SDM requirements during the budget review.

For Aircraft Depot Maintenance, FY 2016 and prior year losses (\$1.3B) have been incurred due to maintenance issues (i.e. excessive corrosion, flight controls, fracture critical structures) and an increase to emergent requirements (i.e. different kinds of fasteners, cold working of holes, oversized holes).

FMB is working with the Fleet Readiness Centers (FRCs) on refining their pricing and induction processes to more accurately reflect expected variation from standards and experience when choosing between fixed price and cost reimbursable project orders. Budgets will be developed to account for the higher variability in actual costs experienced in performance of depot events.



**Detailed Corrective Action Plan (CAP):** The DON is taking a variety of corrective actions to address identified deficiencies within Depot Level Maintenance. The following table describes detailed milestones including targeted correction dates.

Targeted Correction Date	Detail Corrective Actions	Status
4th Quarter, FY 2016	Achieve stakeholder consensus on path ahead to review SDM requirements.	In Progress
4th Quarter, FY 2016	Establishment of an SDM Council. Output of this group will shape funding levels for the SDM program.	Planned
4th Quarter FY 2016	Assess aircraft depot maintenance performance during FY 2016. Take action to mitigate losses (FY 2016 Surcharge of \$45M; FRC upward obligation package prepared and in review at Office of the Under Secretary of Defense (Comptroller) \$126M; reduce overhead \$9.7M.)	In Progress
4th Quarter, FY 2017	Achieve consensus on SDM requirements and associated funding.	Planned
4th Quarter, FY 2017	Fund known SDM requirements.	Planned
4th Quarter, FY 2017	Assess aircraft depot maintenance requirements/rates for FY 2017 and FY 2018 and ensure properly funded. Review workload standards; potential induction reductions. Assess impacts to throughput and readiness. (Depots remain work in process constrained for several type/model/series. FRC losses and carryover should be included in the requirements discussion and path ahead.)	Planned
1st Quarter, FY 2018	External or independent review to validate remediation of the Depot Level Maintenance deficiency.	Not started

## 2. Military Pay and Personnel

**Internal Control Reporting Category:** Personnel and Organizational Management

**Targeted Correction Date:** 2nd Quarter, FY 2021

**Description of Material Weakness:** The Assistant Secretary of the Navy for Financial Management and Comptroller (ASN (FM&C)) and OPNAV(N1)/Chief of Naval Personnel have identified the following high-level trends in pay and personnel systems, processes and organization: inefficient alignment of roles and responsibilities and organizational structure across the Navy and its shared service providers; lack of comprehensive Standard Operating Procedures (SOPs); lack of an integrated automated pay and personnel system; and insufficient standard formal training opportunities and certifications for personnel, pay, fiscal, and travel functions (Threat to Mission, Resources, and Image).

**Detailed CAP:** The DON is taking a variety of corrective actions to address identified deficiencies within Military Pay and Personnel. The following table describes detailed milestones including targeted correction dates.

Targeted Correction Date*	Detail Corrective Actions	Status
4th Quarter, FY 2018	Update OPNAVINST 5200.45 to clearly delineate the roles and responsibilities of the organizations responsible for personnel and pay service delivery and Military Pay auditability and internal controls.	In Progress
4th Quarter, FY 2018	Complete an assessment to identify gaps in personnel and pay policy guidance and SOPs. As needed, develop and implement a plan to create and publish the necessary documents to address the gaps.	In Progress
4th Quarter, FY 2019	Develop and implement standard formal training opportunities and certifications for personnel, pay, fiscal, and travel functions.	In Progress
2nd Quarter, FY 2021	Design and implement an improved personnel and pay service delivery model for Navy (aligned with system development).	In Progress
2nd Quarter, FY 2021	Develop an integrated automated personnel and pay information system (reference related ICOFR material weakness on page C-1-23).	In Progress
2nd Quarter, FY 2021	External or independent review to validate remediation of the Military Pay and Personnel deficiency.	Not Started

\*Target correction dates reflect final completion of higher level milestone. Lower level plans of action are in development and will provide supporting interim milestones for future reporting.

### 3. DON Oversight and Management of Improper Payments

**Internal Control Reporting Category:** Comptroller and Resource Management

**Targeted Correction Date:** 4th Quarter, FY 2017

**Description of Material Weakness:** The DON does not have an adequate system of internal controls over the management of improper payments, including written policies and procedures, tone from the top, oversight and management, accountability through reporting, training, etc. Failing to identify payment issues associated with agreements/procurements (i.e., contracts, travel orders, etc.), receipt/acceptance of goods and services, and invoices, all of which support the legality and propriety of payments increases the likelihood they will continue to be found by auditors and disclosed to external parties.

The DON also may not be aware of improper payments which may go uncollected and result in a loss of funds. Additionally, key program objectives are less likely to be achieved, such as performing risk assessments over the universe of payments, identifying root cause analysis, developing and implementing corrective actions, identifying and collecting overpayments before becoming a loss of funds, performing required annual internal control reviews, conducting recovery audits, and establishing sampling plans and conducting reviews.

The DON's oversight and management of improper payments was first reported in the FY 2015 SOA as an ICOFR material weakness. The SMC voted to reclassify the deficiency as ICONO and to continue to report the condition as a material weakness due to the outstanding issues with the program.

**Detailed CAP:** The DON is taking a variety of corrective actions to address previously identified deficiencies in the oversight and management of improper payments. The following table describes detailed milestones including targeted correction dates.

Targeted Correction Date	Detail Corrective Actions	Status
4th Quarter, FY 2016	<u>Service Provider Root Cause Analysis and CAPs:</u> The DON is obtaining service provider root cause analysis to develop and implement CAPs.	In Progress
2nd Quarter, FY 2017	<u>Sampling Plans:</u> The DON will collect, review, and update sampling plans for existing reportable programs.	Not Started
4th Quarter, FY 2017	<u>Guidance and Appointment:</u> The DON will assess the Improper Payments Information Act (IPIA) requirements to develop guidance for them and service providers in regard to the management and reporting of improper payments. An appointment letter designating the IPIA Program Manager will be signed.	Not Started
4th Quarter, FY 2017	External or independent review to validate remediation of the Improper Payment deficiency.	Not Started

#### 4. Contract Management – Service Contracts

**Internal Control Reporting Category:** Contract Administration

**Targeted Correction Date:** 4th Quarter, FY2017

**Description of Material Weakness:** In FY 2007, Public Law 109-364 was enacted, directing the Department of Defense (DoD) to establish a panel on contracting integrity to review progress made by the DoD to eliminate areas of vulnerability in the contracting environment that may allow for fraud, waste, and abuse. Contracting processes include proper establishment of contracts and the fulfillment of contractual requirements, including performance and delivery, quality control and testing to meet specifications and requirements, performance acceptance, billing and payment controls, justification for contract amendments, and procedures and actions to protect the best interests of the Government.

The panel on contracting integrity identified that surveillance of service contracts was an area that could allow fraud, waste, or abuse. Additionally, a lack of proper contracting processes and procedures is a threat to resources and undermines the integrity of the system and the accountability and trust of those responsible for proper contracting within the organization. Such shortcomings undermine the efficiency and effectiveness of an organization and can adversely affect mission performance. Proper contracting processes and procedures were found to have not been followed in all instances of administering contracts.

Contracting Officer's Representative (COR) reviews identified contract administration vulnerabilities. Specifically, weaknesses were found in the following areas: training and refresher training, CORs delegating duties to other government personnel, CORs not properly appointed by the Procurement Contracting Officer (PCO), failure to obtain access to Wide Area Work Flow (WAWF) to accept/review invoices, all duties/responsibilities not executed as detailed in the COR appointment letter, contractor and subcontractor labor hours and costs not validated, and COR files lacking documentation of the annual meetings between the PCO and the COR. The targeted correction date has slipped as a result of the decision to further validate the deficiency was remediated to ensure the new process and controls were effectively implemented.

**Detailed CAP:** The DON is taking a variety of corrective actions to address previously identified deficiencies in service contract management. The following table describes detailed milestones including targeted correction dates.

Targeted Correction Date	Detail Corrective Actions	Status
1st Quarter, FY 2012	Establish COR Compliance as a special interest item in command monthly metrics brief.	Complete
3rd Quarter, FY 2012	Develop a COR Handbook to address contract surveillance and roles and responsibilities of the Contracting Officer, COR and requiring activity/COR management in surveillance.	Complete

Targeted Correction Date	Detail Corrective Actions	Status
2nd Quarter, FY 2013	Conduct random sampling of contracts executed by each contracting official to ensure compliance with contracting regulations, directions and internal operating procedures.	Complete
3rd Quarter, FY 2013	Deployed the DON COR Tracking Tool; COR Tracking Tool incorporated into WAWF.	Complete
3rd Quarter, FY 2013	(1) Continue to ensure all contracting personnel have required training, certification, and proper grants of authority, and security clearances for their assigned contracting duties; (2) Conduct 100% audit of documentation of aforementioned items and review the internal operating procedures for use by contracting personnel and revise and/or update as needed; (3) Train contracting personnel in use of updated or revised internal operating procedures and conduct random sampling of contracts executed by each contracting official to ensure compliance with contracting regulations, directions and internal operating procedures.	Complete
4th Quarter, FY 2014	Issue Formal DoDI: DoDI 5000.72 (DoD Standard for COR Certification) was released with signature on 26 March 2015. The instruction establishes policies and standards, assigns responsibilities, and provides procedures to certify CORs.	Complete
4th Quarter, FY 2015	Release Secretary of the Navy Instruction (SECNAVINST) to implement DoD guidance on the COR: The leadership determined a SECNAVINST was required for implementing DoDI 5000.72.	Complete
4th Quarter, FY 2016	Establish management oversight and conduct the necessary management internal control activities over the DON's procurement performance management assessment program.	In Progress
4th Quarter, FY 2016	Develop written guidance for overseeing and conducting procurement performance management assessment program reviews within the DON.	In Progress
4th Quarter, FY 2017	External or independent review to validate remediation of the Contract Management deficiency.	Not Started

## 5. Personally Identifiable Information

**Internal Control Reporting Category:** Communications, Intelligence, and/or Security

**Targeted Correction Date:** 4th Quarter, FY 2017

**Description of Material Weakness:** The number and impact of PII breaches across the DON is unacceptably high and has remained fairly constant. The DON breach report metrics and NAVAUDSVC audit findings demonstrate a need to strengthen existing or create new PII safeguarding policies in three key areas: magnetic hard drives, SSN usage reduction, and PII awareness training. The lack of a comprehensive plan regarding the unnecessary or unlawful collection of SSNs could result in a significant loss or compromise of sensitive PII. While a policy on Data at Rest was issued by the DON CIO in January 2009, it has not been fully implemented across the DON. Implementation would significantly reduce the number and impact of PII breaches.

**Detailed CAP:** In 2008, the DON implemented the SSN Usage Reduction Plan to reduce the collection of SSNs in DON-controlled business processes. The SSN Usage Reduction Plan was broken out into three phases: Phase I: DON-wide review and validation of all official forms that collect SSNs; Phase II: DON-wide review and validation of all Information Technology (IT) systems that collect SSN; Phase III: DON-wide review of all miscellaneous collections.

By FY 2011, Phase I had resulted in a 40% reduction in the DON forms that collect SSNs. By FY 2012, Phase II had resulted in a 20% reduction in DON IT systems that collect SSNs and an examination of 179 IT systems.

The DON has removed SSNs from casualty reports, Navy uniform markings, and DON Officer registries. The DON policy prohibits transmission of PII via fax, with exceptions, and it prohibits rosters from collecting SSN. Furthermore, SENAVINST 5216.5 removed the requirement for SSNs in the subject line of memos and letters.

The DON CIO is now working with the DoD and the Office of Management and Budget (OMB) to broaden the reduction of SSN collection throughout DoD and the Federal Government. The DON is scheduled to have SSNs removed from its drug testing program (by December 2016), enlisted evaluations, and officer fitness reports (by December 2017). The DON is currently exploring a Bureau of Navy Personnel (BUPERS) process as a potential SSN reduction initiative as a result of a DON-wide SSN reduction initiative. The DON has contacted and provided the OMB with DON SSN reduction success stories and informational papers for planning to eliminate SSNs from higher order IT systems.

The following table describes detailed milestones including targeted correction dates.

Targeted Correction Date	Detail Corrective Actions	Status
1st Quarter, FY 2011	Phase I: DON-wide review and validation of all official forms that collect SSNs.	Complete

Targeted Correction Date	Detail Corrective Actions	Status
1st Quarter, FY 2012	Phase II: DON-wide review and validation of all IT systems that collect SSNs.	Complete
2nd Quarter, FY 2012	Create refresher PII training module for DON use and update annual PII awareness training.	Complete
3rd Quarter, FY 2014	The DON CIO provided guidance, <i>DON SSN Reduction Plan Phase Three</i> , which required justification for all collections.	Complete
4th Quarter, FY 2016	Phase III: DON-wide review of all miscellaneous collections.	In Progress
4th Quarter, FY 2016	Identify contractor and begin development of DON annual PII awareness and refresher training to replace current training.	In Progress
4th Quarter, FY 2016	Develop DON PII awareness and refresher training mobile application.	In Progress
4th Quarter, FY 2016	Update breach reporting forms Office of the Chief of Naval Operations (OPNAV) 5211/13 and 5211/14.	In Progress
4th Quarter, FY 2016	Update privacy awareness posters.	In Progress
4th Quarter, FY 2016	Establish a working group composed of system owners and privacy Subject Matter Experts (SMEs) to eliminate or reduce the use of the SSNs in selected DoD controlled business processes.	In Progress
4th Quarter, FY 2016	Hire a new privacy SME.	In Progress
4th Quarter, FY 2017	Using breach metrics, identify DoD controlled business processes responsible for the greatest frequency of PII breaches involving SSNs.	Not Started
4th Quarter, FY 2017	External or independent review to validate remediation of the PII deficiency.	Not Started



## 6. Attenuating Hazardous Noise in Acquisition and Weapon System Design

**Internal Control Reporting Category:** Acquisition

**Targeted Correction Date:** 4th Quarter, FY 2017

**Description of Material Weakness:** The noise resulting from the operation of certain weapons systems has been deemed a hazard to the war fighters that operate in and around these weapon systems. The DON did not have a sufficient process in place to effectively address mitigating hazardous noise risks posed by major weapon systems. In addition, the audited weapon systems program offices did not fully comply with requirements to mitigate identified noise hazards during the acquisition process. As a result, these conditions may contribute to a hazardous environment of high noise exposure that, according to the Naval Safety Center, ensures permanent hearing loss for Sailors and Marines. There are potential serious consequences for not remedying hazardous noise and most importantly the health and well-being of Service members impacted by hearing loss. Hearing impairment among Service members also leads to mission and economic consequences for the DON, including: lost time and decreased productivity, loss of highly-valued personnel through medical disqualification, increased military disability settlements, retraining of replacements, and expenses related to medical treatment.

**Detailed CAP:** The DON is taking a variety of corrective actions to address previously identified deficiencies related to attenuating hazardous noise in acquisition and weapon system design. The plan of action includes several corrective action efforts, such as establishing a hearing injury reporting mechanism, expanding current inspection processes to incorporate hearing readiness Measures of Effectiveness (MOE), creating oversight and reporting bodies, and promoting efforts to develop a fleet signal to focus research initiatives by Assistant Secretary of the Navy for Research, Development, and Acquisitions towards the development of new technologies that inhibit the negative effects of hazardous noise and enhance critical communications.

Efforts to complete and sustain the remediation continue to be undertaken by ONR, which sponsors a biennial Noise Induced Hearing Loss Research Symposium that serves as a roadmap to mitigate hazardous noise throughout the DON's organizations, weapon systems, and equipment during the design, engineering, and sustainment processes.

The DON established hearing readiness MOEs to serve as the enterprise tool for Navy Medicine to assess efforts made to minimize preventable noise induced hearing loss across the DON. The current statistics on the MOE are detailed below (note, the data is as of FY 2014; the FY 2015 data has not been issued):

- MOE 1: Hearing injury rates declined from 17.2% in 2005 to 11.6% in 2014
- MOE 2: United States Marine Corps (USMC) compliance with periodic screening increased from 63.2% in CY 2013 to 80.8% in 2014
- MOE 3: Percentage of the Navy and USMC population with normal hearing increased from 76.1% in 2005 to 83.3% in 2014

- MOE 4: New accessions with normal hearing increased from 85.7% in 2005 to 89.5% in 2014
- MOE 5: Percentage of those eligible for Veteran's Benefits Administration compensation has remained relatively unchanged at around 4% over the past 10 years

Naval Safety Center is developing the Risk Management Information System (RMI) which will house the existing MOEs. The RMI has a full operational capability date of FY 2018. The Department of Human Assistance Hearing Center of Excellence has taken the lead in establishing audiometric fitness for duty standards for the DoD as a whole. The Audiometric Fitness for Duty working group, chaired by ONR, is responsible for establishing these standards.

The DON SMC reviewed the progress made to date in the remediation of the deficiency, along with the positive MOEs described above and determined the deficiency should continue to be reported as a material weakness. To date, Navy Bureau of Medicine and Surgery (BUMED) has completed all of the actionable items within its span of control and data points are trending in a positive direction, indicating that hearing conservation efforts throughout the DON are working effectively towards the end goal of reducing the impact of hazardous noise on DON personnel. However, based on the key supporting documentation, the SMC determined that the attenuating hazardous noise material weakness required additional research and testing to identify if the new weapon system acquisition process was working to reduce noise.

The DON is working with all key stakeholders to address corrective actions and milestones required in FY 2017. Due to the overall effect of the deficiency on the health, safety, and welfare of sailors, additional corrective actions and milestones may be necessary to ensure the material weakness is fully remediated.

Targeted Correction Date	Detail Corrective Actions	Status
3rd Quarter, FY 2011	<u>Establish the Hazardous Noise Exposure Mitigation Working Group (HNEMWG)</u> : Establish as a central oversight group with responsibility and authority to manage efforts to mitigate hazardous noise.	Complete
1st Quarter, FY 2012	<u>Issued Interim Policy</u> : The DON issued interim policy to SECNAV 5000.2 emphasizing that noise hazards should be treated with MILSTD 882E in terms of identifying hazards, recommending mitigations and gaining the appropriate risk acceptance.	Complete
2nd Quarter, FY 2012	<u>Commandant of the Marine Corps (CMC) Established Policy</u> : The CMC established hearing conservation and readiness policy.	Complete
3rd Quarter, FY 2012	<u>CMC Inventory</u> : The CMC inventoried all areas of hazardous noise within the industrial hygiene baseline.	Complete
4th Quarter, FY 2012	<u>CMC Established Policy</u> : The CMC established a new policy that requires all military personnel and those civilian employees occupationally exposed to enroll in the Command's Hearing Conservation Program.	Complete

Targeted Correction Date	Detail Corrective Actions	Status
1st Quarter, FY 2014	<u>Established the Hazardous Noise Abatement and Hearing Conservation Flag Level Steering Board</u> : This board is composed of Senior leaders from various Naval commands serving as functional stakeholders in noise control and hearing conservation efforts.	Complete
1st Quarter, FY 2014	<u>Establish Hearing Readiness MOEs</u> : Develop MOEs to serve as the enterprise tool for Navy Medicine to assess efforts made to minimize preventable noise induced hearing loss.	Complete
3rd Quarter, FY 2014	<u>Set Accession and Waiver Standards</u> : Review and modify the DONs hearing loss waiver policy for new accessions entering the Navy to reduce the number of waivers the DON approves.	Complete
4th Quarter, FY 2015	<u>Established Baseline of Research</u> : A dynamic hearing preservation training kit was designed by ONR. The research component is tied directly into the engineering and acquisition component. Both components are represented on the HNEMWG and share similar priorities. Therefore, this milestone will be closed and absorbed into the “Establish Baseline and Roadmap for Engineering and Acquisitions” milestone.	Complete
4th Quarter, FY 2015	<u>Developed Data Sharing Tool</u> : Developed a data sharing tool for Defense occupational and environmental Health Readiness System and Medical Readiness Reporting System.	Complete
1st Quarter, FY 2016	<u>Establish Baseline and Roadmap for Engineering and Acquisitions</u> : The DON HNEMWG, in conjunction with ONR, reports out ongoing research initiatives focusing on engineering, medical, and acquisition strategies targeting hazardous noise mitigation. As part of these initiatives, the ONR Noise Induced Hearing Loss Quad Charts are developed on a biennial basis and serve as the baseline and roadmap for mitigating hazardous noise throughout DON organizations, weapon systems, and equipment during the design, engineering, and sustainment processes.	Complete
3rd Quarter, FY 2016	<u>Hearing Injury Reporting</u> : BUMED leverages Enterprise Safety Application Management System (ESAMS) capabilities for hearing injury reporting. Beta testing of ESAMS as the enterprise reporting tool has been completed. ESAMS as the enterprise tracking application is on hold pending developments of the RMI system initiative. The Naval Safety Center is developing the RMI system to ultimately house the MOE data, but the completion of the RMI is not the final indicator that this milestone is complete, since the MOEs are not reliant on the RMI. Therefore, all actions taken to date support the completion of this milestone.	Complete

Targeted Correction Date	Detail Corrective Actions	Status
4th Quarter, FY 2017	<u>Expand Current Inspection Processes to Incorporate Hearing Readiness Measure of Effectiveness:</u> BUMED developed the Hearing Readiness MOEs. These MOEs are tracked and reported by the Navy Marine Corps Public Health Center to the Vice Chief of Naval Operations. The fleet owns the inspection process which will be driven by RMI requirements currently under development. Navy Medicine serves in a consulting capacity for RMI. Once the hearing readiness module of RMI is complete, Navy Medicine will advise on appropriate inspection criteria that supports the eventual enterprise metrics. RMI and the fleet inspection process fall outside of Navy Medicine's direct authority, but Navy Medicine will continue to provide SME support.	In Progress
4th Quarter, FY 2017	<u>Establish Audiometric Fitness for Duty Standards:</u> The Defense Health Agency Hearing Center of Excellence is charged with establishing DoD audiometric fitness for duty standards that will drive Navy policy when complete. Navy Medicine is represented on the working group along with ONR who serves as chair.	In Progress
4th Quarter, FY 2017	External or independent review to validate remediation of the Attenuating Hazardous Noise deficiency.	Not Started

## 7. Execution of Husbanding Contracts – Husbanding Service Providers

**Internal Control Reporting Category:** Contract Administration

**Targeted Correction Date:** 4th Quarter, FY 2017

**Description of Material Weakness:** Husbanding Service Provider contracts directly support a critical Fleet need for ships throughout the world where the DON does not have naval facilities. Maritime Husbanding Support is the provisioning of supplies and services as defined in a performance work statement of the contract in support of U.S. military forces within a port. The DON business process for acquiring husbanding and port services requires clear oversight, coordination, and direction for an all Navy process that pursues a layered defense philosophy. This series of controls builds a codified, sound, repeatable, holistic process that is independent of the person, with clear governance, checks and balances, and inspection and feedback processes.

In FY 2015, the NAVAUDSVC conducted audit N2012-IEAAA-0129 on the "Execution of Husbanding Contracts utilized in the 7th Fleet Area of Responsibility." In addition, a follow-on audit, N2014-0048 "Navy Husbanding and Port Services Contracts," was conducted at the request of the SECNAV in order to assess internal controls within the Navy husbanding and port services process.

The targeted correction date has slipped from the prior year; this is the result of the decision to increase the lapsed time before validating the deficiency was remediated to ensure the new process and controls were effectively implemented. This additional time was not given consideration in the drafting of the original CAP.

**Detailed CAP:** The DON is taking a variety of corrective actions to address previously identified deficiencies in execution of husbanding contracts. The following table describes detailed milestones including targeted correction dates.

Targeted Correction Date	Detail Corrective Actions	Status
1st Quarter, FY 2016	OPNAV partnered with Naval Supply Systems Command (NAVSUP) and Naval Criminal Investigative Service (NCIS) to assess cyber risks associated with the revised husbanding and port services process and how those risks will be mitigated.	Complete
1st Quarter, FY 2016	All United States Ships and Military Sealift Command (MSC) units executed revised Off-Ship Bill Pay Process.	Complete

1st Quarter, FY 2016	OPNAV, with Naval Inspector General, NCIS, Fleets, NAVSUP, and MSC, implemented and instituted an integrated validation process to ensure annual evaluation of Fleet operations regarding husbanding and port services.	Complete
1st Quarter, FY 2016	OPNAV, with Fleets, NAVSUP and MSC, developed an executive metric dashboard collecting all data associated with the husbanding and port services process; with an emphasis on governance, financial, contracting, and operational requirements that synthesize the health of husbanding and port services process and enables leadership ability to quickly detect and address instances of fraud, waste and or abuse.	Complete
1st Quarter, FY 2016	OPNAV, with Fleets, NAVSUP and MSC, provided a comprehensive map of all information systems involved in the husbanding and port services process, outlining the functions, format and integrity of the data.	Complete
2nd Quarter, FY 2016	OPNAV, with ASN (FM&C) and Fleets, validated the husbanding and port services process and Off-Ship Bill Pay for compliance with all Financial Improvement and Audit Readiness (FIAR) requirements.	Complete
2nd Quarter, FY 2016	OPNAV, with ASN (FM&C) and Fleets, implemented an executive dashboard driving measurement to validate the husbanding and port services process and Off-Ship Bill Pay for compliance with all FIAR requirements.	Complete
3rd Quarter, FY 2016	OPNAV completed OPNAVINST 4400.11, "Husbanding Service Provider Program Policy." The OPNAVINST consists of all stakeholder roles and responsibilities in the husbanding and port services process.	Complete
3rd Quarter, FY 2016	OPNAV, with Naval Education Training Command and Defense Acquisition University, ensured emergent training conducted during FY 2014 is institutionalized and enduring. This training will encompass Pipeline Schoolhouses, Naval Leadership Ethics Center and Senior Enlisted Academy, Fleet, and Pre-Deployment training.	Complete
4th Quarter, FY 2017	External or independent reviews to validate remediation of Execution of Husbanding Contracts deficiency.	In Progress

## TAB C-1

### FINANCIAL REPORTING MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS

The Department of the Navy (DON) performed an assessment of the 34 Internal Control over Financial Reporting (ICOFR) material weaknesses reported in the FY 2015 Statement of Assurance (SOA). This review identified material weaknesses that have been consolidated based on similarity of material weakness content and/or similarity of corrective actions required to remediate the deficiency. The consolidation reduced the total to 20 prior year material weaknesses reported on the SOA. In addition, analysis of deficiencies from various sources resulted in identification of three new material weaknesses. A summary of the ICOFR material weakness updates and changes is captured in the table below.

Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)							
Statement of Assurance: Modified Assurance							
End-to-End Process	Assessable Unit	FY 2016 Beginning Balance	New	Resolved	Consolidated	Reassessed	FY 2016 Ending Balance
Budget-to-Report	Fund Balance with Treasury	0	1				1
	Financial Reporting Compilation	5	2				7
Hire-to-Retire	Military Pay	1					1
Order-to-Cash	Accounts Receivable	4			(4)		0
Procure-to-Pay	Contract/Vendor Pay	3				(1) <sup>1</sup>	2
	Reimbursable Work Orders (Budgetary)	7			(5)		2
	Transportation of Things	3			(1)		2
Acquire-to-Retire	Equipment Assets	3			(2)		1
	Real Property Assets	2			(1)		1
	Inventory	1					1

<sup>1</sup> Improper Payments was reported in the prior year as an ICOFR material weakness and reclassified as an ICONO material weakness for FY 2016.



Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)							
Statement of Assurance: Modified Assurance							
End-to-End Process	Assessable Unit	FY 2016 Beginning Balance	New	Resolved	Consolidated	Reassessed	FY 2016 Ending Balance
Plan-to-Stock	Operating Materials & Supplies	1					1
	Military Standard Requisitioning and Issue Procedures (Requisitioning Procedures)	4					4
<b>Total Financial Reporting Material Weaknesses</b>		<b>34</b>	<b>3</b>		<b>(13)</b>	<b>(1)</b>	<b>23</b>

**Uncorrected Material Weaknesses Identified During the Period:**

Description of Material Weakness			
The Fund Receipt and Distribution (FRD) reconciliation process design requires improvements and more timely preparation. Field level General Ledgers (GLs) do not reconcile to Funding Authorization Documents (FADs).			
Reporting Category	Budget-to-Report	First Year Reported	FY 2016
Current Target Date	1st Quarter, FY 2017		
Corrective Action Summary			
<p>To improve FRD reconciliation procedures, the reconciliation will expand from the current United States Standard General Ledgers account 1010 to also include relevant budgetary accounts. In addition, the Office of Financial Operations (FMO) will provide the GL trial balance report and analysis template to Budget Submitting Offices (BSOs) approximately 10 business days following month end to improve the timeliness of the reconciliation.</p> <p>BSOs will have a single standard by which to process inputs into the FRD Reconciliation; reducing the overall effort required. BSO Budget Authority Reconciliation procedures will be standardized to clarify requirements to document, investigate, and resolve any reconciling items or differences that are identified through the reconciliation process. Reconciling items will be identified as supported or unsupported. Unsupported items will be remediated in advance of the next reconciliation cycle.</p> <p>The Navy will improve procedures to obtain Program Budget Information System (PBIS) information to eliminate current manual efforts. The information will include total program amount, pending action amount, total allocation amount, total authorized, an "as of" date in the report query to support a cut off requirement, and FAD remarks.</p> <p>An assessment period of two quarters is established for completion of validation procedures.</p> <p>Major Headquarters Activity (MHA) reduction will impact ability to achieve required Corrective Action Plan (CAP) milestones.</p>			

Description of Material Weakness			
The DON Fund Balance with Treasury (FBwT) reconciliation does not effectively reconcile field level GL balances to reported amounts on budgetary reports and the financial statements. The DON does not perform effective oversight of the FBwT process performed by Defense Finance and Accounting Service (DFAS).			
Reporting Category	Budget-to-Report	First Year Reported	FY 2016
Current Target Date	1st Quarter, FY 2017		
Corrective Action Summary			
<p>The reconciliation has been enhanced to identify the nature of reconciling differences between the field-level GL activity, Defense Department Reporting System reported amounts, and Treasury. A qualitative analysis of adjustments will supplement the reconciliation and incorporate analysis of the undistributed amounts. The reconciliation will be performed monthly, in advance of the preparation of financial reports. The Navy FBwT Tool is planned to achieve the initial operating capability in FY 2017.</p> <p>The DON is taking steps to ensure stronger oversight of its financial service providers, including the FBwT process executed by the DFAS. The DON has drafted a Service Level Agreement (SLA) with the DFAS, documented clear roles and responsibilities for the two organizations, and plans have been developed to ensure quality assurance reviews are completed.</p> <p>An assessment period of two quarters is established for completion of validation procedures.</p> <p>MHA reduction will impact ability to achieve required CAP milestones.</p>			

Description of Material Weakness			
The DON has not established sufficient procedures to provide oversight of the Third-Party Shared Service Provider (SSPs) that process, store, or transmit Navy financial data. The Navy does not have a comprehensive set of governance and oversight agreements. It lacks SLAs, Memoranda of Understanding (MOUs), or other documents to clearly outline roles and responsibilities of the Navy and its service providers with respect to controls over processes performed. Controls over financial Information Technology (IT) systems are insufficient.			
Reporting Category	All	First Year Reported	FY 2016
Current Target Date	2nd Quarter, FY 2017		
Corrective Action Summary			
<p>Office of Management and Budget Circular No. A-123 prescribes internal control considerations for SSPs, specifically, management’s responsibility for general oversight, for the processes performed, and for the establishment of user controls. These are addressed in turn:</p> <p><u>Responsibility for Oversight of Service Organizations:</u></p> <p>As DFAS is the accounting service provider for the Department of Defense (DoD), oversight of the DFAS is a priority for the FMO. The DON drafted an SLA with the DFAS, documented clear Roles and Responsibilities (R&amp;Rs) for the two organizations, and plans have been developed to ensure quality assurance reviews are completed. The current primary driver of change is the financial statement audit environment which the DON is entering and a new R&amp;R document was drafted to reflect the new requirements. In addition, over the past year the DON and the DFAS brought the Marine Corps/DFAS R&amp;R into the document, making it an all-DON agreement.</p> <p>In FY 2016, the FMO established a Quality Assurance Surveillance Plan (QASP), a quarterly drumbeat of FMO/DFAS meetings to review progress on performance metrics established for DFAS in 2011. In FY 2017, the FMO will update these performance metrics and enhance oversight through the quarterly QASP reviews.</p> <p>In FY 2016, the FMO sent out MOUs for audit response to all impacted service providers. These MOUs ensure that financial data and documentation is being produced on time and to standards required by the Independent Public Auditor (IPA).</p> <p><u>Responsibility for Processes Performed:</u></p> <p>The FMO implemented a governance protocol with DFAS to improve internal controls and sustain operational processes. FMO and DFAS reached agreement on coordinating, approving and documenting Department-level Journal Vouchers (JVs) over \$1 Billion, codified in a December 2015 MOU and sustained through standing monthly meetings at the working level, weekly conference calls at the leadership level, and ongoing JV Quality and Compliance Testing.</p>			

All JVs, regardless of dollar amount, are monitored as part of FMO's governance and compliance processes outlined in the December 2015 MOU. A sample of JVs less than \$1 Billion are tested on a monthly and quarterly basis. Test results, as well as any recommended process improvements, are briefed to DFAS monthly.

Responsibility for Establishing User Controls:

The DON achieved CAP milestones for user controls that include the implementation of stakeholder training to address Complementary User Entity Control (CUECs) and Service Organization Controls (SOC) 1, development of key control objective mapping matrices, and completion of an R&R document.

The DON will develop, document, and implement procedures to evaluate the SSP SOC 1 reports and determine the impact of any deficiencies on Navy's data. The DON will document CUECs and identify individuals responsible for ensuring CUECs are in place and operating effectively.

The DON will formally document operating requirements between the DON and SSPs through new SLAs. Updates will also be made to the R&R document with respect to oversight functions, responsibilities for Statement on Standards for Attestation Engagements 16, and CUEC identification of gaps or weaknesses in services performed by SSPs.

An assessment period of two quarters is established for completion of validation procedures.

MHA reduction will impact ability to achieve required CAP milestones.

**Uncorrected Material Weaknesses Identified During Prior Periods:**

Description of Material Weakness			
<p>Naval Shipyard requisitions cannot be reconciled to the GL. Key Supporting Document (KSDs) to support administrative receipt processing and monitoring of disbursements to detect invalid, fraudulent, or improper billings are not retained in accordance with standard policy. As a result, Naval Shipyards could overstate or understate financial statement obligations and disbursements.</p>			
<b>Reporting Category</b>	Plan-to-Stock	<b>First Year Reported</b>	FY 2013
<b>Original Target Date</b>	4th Quarter, FY 2013	<b>Current Target Date</b>	4th Quarter, FY 2017
Corrective Action Summary			
<p>The feeder system reconciliation was validated for Military Standard Requisitioning and Issue Procedures (MILSTRIP) GL transactions at Naval Shipyard and Regional Maintenance Centers. Standards for KSDs for MILSTRIP transactions were released in 4th Quarter 2014. Navy issued a policy memorandum, "Revised document retention requirements to support the DON financial statement audits," in January 2015. However, during the FY 2015 Schedule of Budgetary Activity (SBA) audit, the IPA noted Navy was unable to provide adequate supporting documentation for MILSTRIP transactions including evidence of receipt and acceptance and proper authorization of transactions.</p> <p>In response to the IPA findings, the Navy issued Financial Management Policy Letter 16-01, <i>"Delegation of Authority to Appoint Accountable Officials."</i> In March 2016, the Navy issued Naval Administrative (NAVADMIN) 066/16 requiring commands to: retain appropriate financial documents as outlined in the KSD Matrix; establish standardized document retrieval practices for the Command; and implement self-testing to confirm that process improvements for document retention, document Quality Assurance (QA), and approval for financial events are in place and maintained. Commands were required to provide evidence of these actions. This evidence is currently under review to determine sufficiency and identify any further required corrective actions. Deeper root cause analysis on business cycles, workshops/training and increased automation will further strengthen document retention controls on certain DON-wide processes (e.g. Receipt and Acceptance).</p> <p>An assessment period of two quarters is established for completion of validation procedures.</p> <p>MHA reduction will impact ability to achieve required CAP milestones.</p>			

Description of Material Weakness			
The DON's control environment is not designed and/or operating effectively, as individuals without properly documented authority are approving purchase requests, purchase orders, and certifying invoices for payment. The DON is unable to consistently provide documentation supporting receipt and acceptance for procure-to-pay outlays.			
Reporting Category	Procure-to-Pay	First Year Reported	FY 2014
Original Target Date	2nd Quarter, FY 2014	Current Target Date	1st Quarter, FY 2017
Corrective Action Summary			
<p>Financial Management Policy Letter 16-01: <i>Delegation or Authority to Appoint Authority to Appoint Accountable Officials</i> was released to the Command level to provide guidance and authority for appointments. Secretary of the Navy Instruction (SECNAVINST) 7000.28, <i>Requirements for Delegation and Appointment Documentation</i>, will be released in October 2016. The instruction provides proper use of DD Form 577, "Appointment/Termination Record/Authorized Signature," and outlines document retention.</p> <p>During the FY 2015 SBA audit, the IPA noted that the Navy was unable to provide documentation supporting delegations of authority and receipt and acceptance. In response to the findings, the Navy issued NAVADMIN 066/16, directing Commands ensure DD Form 577s are created and maintained for all relevant authorizers/approvers of financial events; retain appropriate financial documents as outlined in the KSD Matrix; establish standardized document retrieval practices; and implement self-testing to confirm that process improvements for document retention, document QA, and approval for financial events are in place and maintained. Commands were required to provide evidence of these actions. This evidence is currently under review to determine sufficiency and identify any further required corrective actions.</p> <p>An assessment period of two quarters is established for completion of validation procedures.</p> <p>MHA reduction will impact ability to achieve required CAP milestones.</p>			



Description of Material Weakness			
Obligations are not recorded in the GL system within 10 days following obligation activity. The probable audit risk is that obligations may be understated in the financial statements. <sup>2</sup>			
Reporting Category	Procure-to-Pay	First Year Reported	FY 2012
Original Target Date	4th Quarter, FY 2013	Current Target Date	3rd Quarter, FY 2017
Corrective Action Summary			
<p>Navy Commands were reminded that <i>DoD Financial Management Regulation (FMR)</i> Volume 3, Chapter 8 states that obligations shall be recorded no later than 10 calendar days following the day an obligation is incurred.</p> <p>Navy Command level CAPs ensure that no less than two government employees obtain and maintain an Electronic Document Access account (provides the functionality to create, edit, and maintain lists to support audit requirements and receive contract load notifications on a daily basis to ensure the timely reporting of obligations). Remediation testing is occurring and the FMO will continue to educate Navy Commands on proper recording of obligations through feedback on future testing, working groups, and training development.</p> <p>In the United States Marine Corps (USMC), policies and procedures have been implemented to address the deficiency (e.g., Marine Corps Order 4400.150 <i>Consumer Level Supply Policy</i> and the Navy Marine Corps 4000.5 <i>Supply Officer's Internal Control Handbook</i>). The USMC is developing an Offline and Internet Based-Ordering policy, which provides additional guidance for internal control requirements related to the proper recording of obligations for Offline and Internet-based requisitions.</p> <p>An assessment period of two quarters is established for completion of validation procedures.</p> <p>MHA reduction will impact ability to achieve required CAP milestones.</p>			

<sup>2</sup> This represents a consolidation of two material weaknesses reported on the FY 2015 DON SOA. Refer to Attachment 1-1 for information on material weaknesses that were consolidated for FY 2016 reporting.

Description of Material Weakness			
The Navy is unable to provide detailed transaction data to support the history of cumulative transactions. The Navy's beginning balances are unsupported.			
Reporting Category	Budget-to-Report	First Year Reported	FY 2015
Original Target Date	1st Quarter, FY 2017	Current Target Date	4th Quarter, FY 2017
Corrective Action Summary			
<p>FMO developed the Navy's single relational database known as the Transaction Universe to provide visibility of all of the Navy's financial transactions. The database contains transactional detail and summary level information from the Navy's accounting systems of record, including its four general fund field level general ledger systems of record as well as details from Defense Cash Accountability System, PBIS, Defense Department Reporting System – Budgetary (DDRS-B), and Defense Department Reporting System – Audited Financial Statements (DDRS-AFS). The FMO's Accounting and Financial Reporting Division (FMO-2) is responsible for building and maintaining the TU.</p> <p>The Navy developed a Single Point Transaction Universe (SPTU) that includes all transactions supporting full financials beginning for budget years FY 2015 activity and forward. The SPTU, a subset of the TU, is the universe of transactions in the scope of the FY 2015 General Fund SBA audit. The Navy intends to produce a complete and reconcilable transaction level history for all GL accounts and beginning budget years starting with FY 2013 (and forward) based on initial line item materiality analysis.</p> <p>In support of this CAP effort, the Navy developed as-is Standard Operating Procedures (SOPs), as-is control objectives, designs, tests work products, and documenting current processes to deliver SPTU audit artifacts. This effort was completed 15 May 2016. The Navy implemented a reconciliation of the SPTU to the Field Level GLs during 2nd Quarter, FY 2016. Additionally, the Navy developed a SharePoint solution to track the FMO approvals during the preparation and delivery of the SPTU and demonstrated SharePoint workflows to stakeholders and identified corrective actions to implement.</p> <p>For specific accounts that require a further look back to materially support line item balances, the Navy will develop supporting transaction history on a case by case basis. The Navy expects its transaction level history will materially support its beginning balances for its FY 2017 financial statements and forward. The SPTU is intended to accumulate the necessary transactional data to support beginning balances.</p> <p>An assessment period of two quarters is established for completion of validation procedures.</p> <p>MHA reduction and system limitations will impact ability to achieve required CAP milestones.</p>			

### Description of Material Weakness

No effective controls are in place to prevent unauthorized use of Transportation Account Codes (TAC) or prevent unauthorized shipments from occurring. Transportation Officers across DoD do not have the capability to determine if the shipping requestor is authorized to use the TAC cited on the shipping document or validate that sufficient funds are available prior to releasing for shipment. Additionally, interfaces among transportation and financial systems do not support exchange of all required transactional data. Navy standard document numbers may be altered as transportation transactions enter other services' financial and transportation systems.

The majority of Transportation of Things (ToT) systems are owned by Transportation Service Providers and other services. These differences in system requirements result in lost or corrupted transference of data, increased risk of incorrect financial reporting, and extreme difficulty/inability to trace transactions from GL to source documentation. This results in transportation services being charged to the wrong organization which in turn, may lead to potential Anti-Deficiency Act (ADA) violations and misstatements in the lines of accounting.<sup>3</sup>

<b>Reporting Category</b>	Procure-to-Pay	<b>First Year Reported</b>	FY 2013
<b>Original Target Date</b>	4th Quarter, FY 2014	<b>Current Target Date</b>	4th Quarter, FY 2017

### Corrective Action Summary

The DON transportation transactions are governed by DoD-level business processes and are critically dependent on non-Navy activities. The DON collaborates with Office of the Secretary of Defense (OSD) led working groups and corrective action timelines are ongoing to develop DoD-wide solutions. As the designated single shipper system, Cargo Movement Operations System (CMOS) with TrackerLite is incorporating automated logic to validate sufficient funding and prevent unauthorized usage of TACs. Implementing CMOS within the Navy's environment will create a direct link between the transportation and financial systems. The DON will monitor the implementation of CMOS through FY 2018.

The Assistant Secretary of the Navy (Financial Management and Comptroller) sent a letter to the Under Secretary of Defense (Comptroller) on 23 June 2016 emphasizing the need for the OSD to adhere to the audit timeline established by the *National Defense Authorization Act 2010*. The corrective action timelines are primarily determined at the OSD level.

To mitigate the risk associated with waiting for long term OSD-led corrective actions, DON will utilize existing help desk capabilities to troubleshoot TAC code validation at transaction initiation.

An assessment period of two quarters is established for completion of validation procedures.

MHA reduction will impact ability to achieve required CAP milestones.

<sup>3</sup> This represents a consolidation of two material weaknesses reported on the FY 2015 DON SOA. Refer to Attachment 1-2 for information on material weaknesses that were consolidated for FY 2016 reporting.

Description of Material Weakness			
The DoD does not have a centralized process to maintain, store, and retrieve transportation documentation which are required to support ToT transactions, management evaluation, and future examination/audits.			
Reporting Category	Procure-to-Pay	First Year Reported	FY 2013
Original Target Date	4th Quarter, FY 2014	Current Target Date	4th Quarter, FY 2017
Corrective Action Summary			
<p>The DON's transportation transactions are governed by DoD-level business processes and are critically dependent on non-Navy activities. The majority of ToT KSDs are generated by systems/processes not owned by the DON and cannot be provided in a timely manner. The DON is working with OSD-led working groups to develop DoD-wide solutions and mitigating strategies; initial meeting for requirements analysis was held on 29 June 2016.</p> <p>To mitigate, the DON maintains a KSD Matrix that includes KSDs required to support each business process and sub-business process. This aligns to the broader effort addressing issues relating to document retention/sufficiency and approval for financial transactions. In response to IPA findings from the FY 2015 SBA audit, NAVADMIN 066/16 was issued, directing Commands to: ensure DD Form 577s are created and maintained for all relevant authorizers/approvers of financial events; retain appropriate financial documents as outlined in the KSD matrix; establish standardized document retrieval practices; and implement self-testing to confirm that process improvements for document retention, document QA, and approval for financial events are in place and maintained. Commands were required to provide evidence of these actions. This evidence is currently under review to determine sufficiency and identify any further required corrective actions.</p> <p>An assessment period of two quarters is established for completion of validation procedures.</p> <p>MHA reduction will impact ability to achieve required CAP milestones.</p>			

Description of Material Weakness			
The Navy's internal control reconciliation process for Unliquidated Obligations (ULOs) is not designed to effectively monitor if open MILSTRIP commitments and obligations represent a bona fide need.			
Reporting Category	Plan-to-Stock	First Year Reported	FY 2013
Original Target Date	2nd Quarter, FY 2014	Current Target Date	4th Quarter, FY 2016
Corrective Action Summary			
<p>The lack of a valid universe has hampered the Navy's efforts to perform the Triannual Review (TAR). The Navy has developed and established a universe of transactions for the TAR from its multiple GLs. The Office of Budget (FMB) directed Commands to establish status codes to identify obligations as valid, adjusted, canceled, or awaiting contract reviews by the Defense Contract Audit Agency. The Navy provided its Commands an updated TAR checklist to account for the status of transactions reviewed. The Navy implemented a Command spot check where the FMB selects two triannual periods and substantiates the submission of the Command's TAR reports.</p> <p>The FMB provided regular guidance, Navy-wide communications and training to the BSOs. The FMB collaborated with the Department of Defense Inspector General (DoDIG) on a major change to the <i>DoD FMR</i> Volume 3, Chapter 8, and provided feedback to the BSOs on this upcoming change to procedures, which aligns with many of the actions already implemented by the Navy. The Navy established a universe of transactions in the data warehouse at Naval Supply Systems Command (NAVSUP) Mechanicsburg that are available to the FMO and the Navy Enterprise Resource Planning (ERP) BSOs. The Navy developed and implemented a System Change Request (SCR) in coordination with the DFAS which documents the universe of transactions for a given TAR reporting period for STARS FL Commands. The SCR expanded the criteria of the pool of data to include all open documents within the given periods of availability. These reports were deployed by the DFAS and are posted on PBIS Web.</p> <p>Due to the volume of MILSTRIP transactions, an automated solution is essential to address ULOs. Transition to Standard Accounting Budgeting Reporting System will change the tools and templates used by Commands to perform the review which may improve the process.</p> <p>An assessment period of two quarters is established for completion of validation procedures.</p> <p>MHA reduction will impact ability to achieve required CAP milestones.</p>			

Description of Material Weakness			
There are insufficient standard internal controls and supporting documentation for real property and Construction in Progress (CIP). <sup>4</sup>			
Reporting Category	Acquire-to-Retire	First Year Reported	FY 2006
Original Target Date	2nd Quarter, FY 2009	Current Target Date	4th Quarter, FY 2017
Corrective Action Summary			
<p>NAVFAC automated the DD Form 1354, Transfer and Acceptance of Military Real Property, process that utilizes CIP costs accrued in the Facilities Information System and matches them to real property assets recorded in the accountable property system of record. The process links the FM, Asset Management (AM) and Capital Improvement communities in developing Cost to Government values that populate the interim and final DD Form 1354. An analysis will be performed after all CAPs are completed. The DON conducted two rounds of testing that measured the strength of existing internal controls and implementation of corrective actions. The tracking and receiving of CIP has become an integrated process between the FIS and internet Navy Facilities Asset Data Store. CIP testing is taking place 4th Quarter, FY 2016 – 2nd Quarter, FY 2017 (NAVFAC).</p> <p>The Navy is developing a solution to capture and accurately record project costs funded by appropriations other than military construction. This solutions will allow Navy to provide a universe of transactions to support Reported CIP balances.</p> <p>The USMC's SOPs and internal control test procedures have been written and implemented. A real property Accountability Officer/Assistant Planner is fixing and maintaining records on a full time basis. The Headquarters Marine Corps (HQMC) will conduct an audit to identify deficiencies in property record data. The HQMC Internal Review team will perform internal validating testing in 4th Quarter, FY 2017 to determine if appropriate corrective actions have been taken to remediate the deficiency.</p> <p>An assessment period of two quarters is established for completion of validation procedures.</p> <p>MHA reduction will impact ability to achieve required CAP milestones.</p>			

<sup>4</sup> This represents a consolidation of two material weaknesses reported on the FY 2015 DON SOA. Refer to Attachment 1-3 for information on material weaknesses that were consolidated for FY 2016 reporting.

Description of Material Weakness			
The DON cannot establish and/or support ownership and valuation of General Equipment (GE) due to lack of supporting documentation, improper interpretation of guidance, underutilization of the Accountable Property System of Record (APSR), and system limitations. In addition, the DON cannot substantiate that the APSR represents a complete inventory of GE assets. The inability to reconcile property accountability systems with financial systems equates to inaccurate asset disclosure and presentation. <sup>5</sup>			
<b>Reporting Category</b>	Acquire-to-Retire	<b>First Year Reported</b>	FY 2007
<b>Original Target Date</b>	1st Quarter, FY 2009	<b>Current Target Date</b>	4th Quarter, FY 2017
Corrective Action Summary			
<p>The DON has implemented the Financial Improvement and Audit Readiness (FIAR) assertion process, as of the 1st Quarter, FY 2013. Discovery actions, including Business Process Standardization (BPS) efforts to map and streamline business processes, were performed during this period. Initial rounds of inventory testing for existence and completeness were completed in the 3rd Quarter, FY 2013.</p> <p>Between 2010 and 2013, existence and completeness assertions for Ships and Submarines, Navy Small Boats, Aircraft, Satellites, and Trident Missiles were signed. A GE-Remainder existence and completeness assertion was signed on 30 June 2015 to capture the remaining GE asset universe not previously asserted. Between April and June 2016, the DON conducted financial reporting testing to validate KSDs to support financial statement tie-back to a supportable lists of assets and values. The DON is developing CAPs to ensure the GE-Remainder KSDs are actual invoices, or in compliance with Statement of Federal Financial Accounting Standards (SFFAS) Number 6 <i>Deemed Cost Methodologies</i>.</p> <p>The DON will conduct a complete physical inventory for Vessels, Aircraft, Trident Missiles, and Satellites in 4th Quarter, FY 2016 to support beginning balances. Office of the Chief of Naval Operations (OPNAV) has been engaged to define and release guidance for inventory of Vessels and Aircraft to the respective communities. Furthermore, the DON released guidance for BSOs to begin recording quarterly asset listings, and annually submit 4th Quarter lists to reconcile values to the beginning balance. Beginning 3rd Quarter, the DON will assess asset lists for all 19 BSOs to substantiate and support values toward the FY 2017 beginning balance. Concurrently, the DON is developing a strategy to conduct 100% inventory testing to substantiate existence and completeness and valuation, supported by KSDs, to support accurate values toward the FY 2018 beginning balance.</p> <p>The DON will perform internal validation testing in the 4th Quarter, FY 2017 to determine if appropriate corrective actions have been taken to remediate these deficiencies.</p> <p>MHA reduction will impact ability to achieve required CAP milestones.</p>			

<sup>5</sup> This represents a consolidation of three material weaknesses reported on the FY 2015 DON SOA. Refer to Attachment 1-4 for information on material weaknesses that were consolidated for FY 2016 reporting.



Description of Material Weakness			
The Navy's Transactions resident in the Business Transaction Systems (BTS) cannot be reconciled to the Navy General Ledger Accounting Systems (GLAS). Process variances, system interface and configuration management issues present a risk that the Navy could over or under state obligations, accounts receivable, accounts payable, and disbursements.			
Reporting Category	Budget-to-Report	First Year Reported	FY 2015
Original Target Date	4th Quarter, FY 2017	Current Target Date	4th Quarter, FY 2017
Corrective Action Summary			
<p>The Navy standardized reconciliations to confirm the completeness of data between approximately 66 BTS feeder systems, with a total of 108 interfaces and seven GLAS that align with a prioritized list from 250 unique data exchanges. There are multiple BTS stakeholders and non-standardized business processes across over 250 BTS to GLAS data exchanges creating challenges in acquiring necessary documentation and data for each BTS and data exchange.</p> <p>GL system owners provided a milestone schedule, identifying the BTS interfaces to reconcile by 31 December 2016. The FMO coordinated with Navy ERP and Defense Working Capital Accounting System to define requirements needed to comply with the reconciliation memo of March 2016 and received a Rough Order of Magnitude and estimated completion date for needed system changes.</p> <p>The Navy implemented and defined data requirements for reconciliations 30 June 2016. Reconciliations will be designed and implemented by 30 September 2016 and tested by 31 December 2016. The Navy is 40% complete with the Feeder System Reconciliation plan.</p> <p>An assessment period of two quarters is established for completion of validation procedures.</p> <p>MHA reduction will impact ability to achieve required CAP milestones.</p>			

Description of Material Weakness			
<p>The Reimbursable Work Order – Grantor/Performer (RWO-G/P) process lacks controls. The Navy’s control environment is not designed and/or operating effectively to verify or validate RWO-G/P transactions are authorized, approved, properly posted, accurate, and complete. There is a potential audit risk that the Navy’s financial statements do not accurately account for undelivered orders, accounts receivables, or year-end accruals, which could result in invalid and/or unauthorized transactions.<sup>6</sup></p>			
<b>Reporting Category</b>	Procure-to-Pay	<b>First Year Reported</b>	FY 2012
<b>Original Target Date</b>	FY 2012	<b>Current Target Date</b>	4th Quarter, FY 2018
Corrective Action Summary			
<p>The Department of Treasury, in conjunction with the Federal Reserve Bank of Boston (FRBB), is scheduled to release the Government Invoicing (G-Invoicing)/Invoice Processing Platform (IPP) in FY 2017. G-Invoicing is a U.S. Treasury initiative to eliminate the material weakness over intergovernmental transactions cited by the Government Accountability Office audit of the Financial Report of the U.S. Government.</p> <p>The Navy reached several interim G-Invoicing/IPP implementation milestones during FY 2016, including publication of a comprehensive standard process for buying and selling that includes policies, guidance, and controls as well as a data standard for system exchanges. In April 2016, the Navy provided a proof of concept demo to the FRBB project team of the interface between G-Invoicing/IPP and the Navy Enterprise Service Bus (ESB) for reimbursable agreements.</p> <p>The DoD designed business rules and data validation measures that will be enforced via the DoD Global Exchange (GEX). A successful initial test was conducted between the DoD GEX and the Navy ESB to exchange transaction data. Meeting the current target date of 4th Quarter, FY 2018 is contingent upon a series of dependencies requiring coordination between the Navy and external stakeholders. These dependencies include the finalization of G-Invoicing/IPP data standards, establishing the G-Invoicing/GEX interface, accomplishing Navy systems interfacing with GEX, testing of interfaces, and data validation.</p> <p>The Navy will institute repeatable feeder system to GL reconciliations of all transactions by the end of calendar year 2016. The Navy is centrally developing methodologies to estimate and post receivable accruals for implementation across Major Commands. This is being done through working sessions to establish successful and sustainable processes that will eliminate this material weakness with long term sustainability.</p> <p>An assessment period of two quarters is established for completion of validation procedures.</p> <p>MHA reduction will impact ability to achieve required CAP milestones.</p>			

<sup>6</sup> This represents a consolidation of eight material weaknesses reported on the FY 2015 DON SOA. Refer to Attachment 1-5 for information on material weaknesses that were consolidated for FY 2016 reporting.

Description of Material Weakness			
<p>The Navy has identified problems with the Moving Average Cost (MAC) inventory value calculations in Navy ERP. Business processes currently in existence do not support accurate valuation of inventory and Navy ERP is not designed to support the Navy's existing business practices that involve the use of estimated prices in funding documents/commercial contracts.</p> <p>Inventory reported in the financial statements is not valued correctly in accordance with SFFAS #3 <i>Accounting for Inventory and Related Property</i>. These issues prevent the tracing of transactions from source documentation to dollar values on the Navy's financial statements.</p>			
<b>Reporting Category</b>	Plan-to-Stock	<b>First Year Reported</b>	FY 2005
<b>Original Target Date</b>	4th Quarter, FY 2011	<b>Current Target Date</b>	4th Quarter, FY 2017
Corrective Action Summary			
<p>The Navy implemented the Navy ERP Single Supply Solution (SSS/ERP 1.1) in 1st Quarter, FY 2013 and procurement contractual actions were refined to support proper MAC valuation.</p> <p>The Navy submitted a formal waiver to the current DoD FMR policy that prohibits the use of estimates for inventory valuation. The current DoD FMR is in the process of being updated to allow for the alignment of operating costs associated with a contract to the inventory values.</p> <p>Updates to business processes and the Navy ERP system design are required to fully remediate issues. A series of Navy ERP changes are required to realign automated Navy ERP valuation events, including updates for contracting practices and commercial and organic repair activities impacting MAC valuation. The Navy conducted discovery efforts on inventory valuation assessments in Navy ERP. These efforts concluded in the 3rd Quarter, FY 2016 and comprehensive CAPs to address Navy ERP MAC deficiencies are in development. Navy ERP changes have unidentified costs associated and may not be completed by 4th Quarter, FY 2017. Although this may result in an over/understatement of the Inventory balance value, adjustments are not expected to be material. Organic repair processes have yet to be scrutinized. Valuation corrective actions will require multiple new Engineering Change Proposals (ECPs) in Navy ERP.</p> <p>An assessment period of two quarters is established for completion of validation procedures.</p> <p>MHA reduction will impact ability to achieve required CAP milestones.</p>			

Description of Material Weakness			
Military Sealift Command (MSC) liquidations and payments lack supporting receipt and acceptance documentation for the USMC. Delivery confirmation documentation is not received from Defense Contract Management Agency as required. <sup>7</sup>			
Reporting Category	Procure-to-Pay	First Year Reported	FY 2012
Original Target Date	4th Quarter, FY 2013	Current Target Date	3rd Quarter, FY 2017
Corrective Action Summary			
<p>The USMC and the MSC are collaborating to provide appropriate source documentation. Logistic and Comptroller personnel will reconcile documents provided with liquidations posted through the DFAS to ensure requirements are being substantiated accurately.</p> <p>The Director of Financial Management (DFM) Managerial Accounting Office (MAO) initiated quarterly training sessions to ensure project officers are aware of the importance of identifying the Marine Corps Accounting Station code during the Wide Area Work Flow (WAWF) process. The Marine Corps System Command (MCSC) DFM MAO implemented a weekly distribution of outstanding invoices which included a message requesting WAWF users to ensure they input the Agency Accounting Identifier (AAI) at the line item level. The MCSC DFM MAO requested an ECP that would require the input of the AAI, for DoD Activity Address Code's, when performing receipt and acceptance functions within WAWF.</p> <p>The DON will perform internal validation testing in 3rd Quarter, FY 2017 to determine if coordination with MSC remediated the deficiency.</p> <p>MHA reduction will impact ability to achieve required CAP milestones.</p>			

<sup>7</sup> This represents a consolidation of two material weaknesses reported on the FY 2015 DON SOA. Refer to Attachment 1-6 for information on material weaknesses that were consolidated for FY 2016 reporting.

Description of Material Weakness			
GLAS posting logic does not produce expected financial and budgetary accounting relationships.			
Reporting Category	Budget-to-Report	First Year Reported	FY 2015
Original Target Date	4th Quarter, FY 2016	Current Target Date	4th Quarter, FY 2016
Corrective Action Summary			
<p>Navy ERP implemented posting logic fixes including data cleanup for general fund and elimination of a monthly JV. The DON continues to strengthen the analytics over the JVs that cause financial and budgetary relationship irregularities.</p> <p>The DON will prioritize, evaluate and/or validate existing Defense Department Reporting System (DDRS) Crosswalks, Manual and Automated JVs to provide transparency and compliance with Treasury Financial Manual (TFM) and United States Standard General Ledger (USSGL) within the DDRS by 30 September 2016. Within Navy ERP there is an increased importance on the prioritization process for Navy ERP posting logic related changes for continual improvement for Federal Financial Management Improvement Act (FFMIA).</p> <p>System changes in the posting logic of ERP to prevent the posting error from re-occurring was completed on 17 May 2016. The DON provided recommended updates which resulted in the OSD issuing more specific DoD Tie-Point Standards in April 2016.</p> <p>An assessment period of two quarters is established for completion of validation procedures.</p> <p>MHA reduction will impact ability to achieve required CAP milestones.</p>			

Description of Material Weakness			
The Navy has inconsistent procedures to record JVs and Standard Business Transactions.			
Reporting Category	Budget-to-Report	First Year Reported	FY 2013
Original Target Date	4th Quarter, FY 2013	Current Target Date	2nd Quarter, FY 2017
Corrective Action Summary			
<p>The Navy updated its standard business processes to incorporate the improved JV review and approval requirements. The Navy established a roles and responsibilities agreement with the DFAS to govern and improve standardization of the services provided by the DFAS.</p> <p>The Navy implemented a DDRS-B and DDRS-AFS Quality and Compliance Review process to identify and document root causes related to posting logic issues resulting in “on top” JVs. The root causes are evaluated to determine if solutions can be put in place to reduce or eliminate the JVs. The Navy will establish a governance process and prioritize, evaluate and/or validate existing DDRS Crosswalks, Manual and Automated JVs to provide transparency and compliance with TFM and USSGL within DDRS by 30 September 2016.</p> <p>The Navy development and implementation of the FMO DDRS-B and DDRS-AFS Quality and Compliance Review process and procedures, SOP, and workbooks were completed on 25 May 2016. The Navy began performing this review in October 2015 on a monthly basis for DDRS-B and quarterly for DDRS-AFS JVs. The results of the review are provided back to the DFAS during monthly meetings, to ensure improvement of the supportability of JVs.</p> <p>This process has resulted in the elimination of one category of manual JVs, which was caused by insufficient data passed from PBIS to DDRS. The Navy will establish a governance process and prioritize, evaluate and/or validate existing DDRS crosswalks, manual and automated JVs to provide transparency and compliance with TFM and USSGL within DDRS by 30 September 2016.</p> <p>The Navy established a monthly Field-Level JV log review and reporting process which will support quarterly Command-level Quality and Compliance Review and FMO independent verification reviews. FMO developed test procedures, workbooks and training materials to support these activities.</p> <p>An assessment period of two quarters is established for completion of validation procedures.</p> <p>MHA reduction will impact ability to achieve required CAP milestones.</p>			

Description of Material Weakness			
<p>The Navy cannot demonstrate an ability to consistently perform and document annual physical inventories of Operating Materials and Supplies (OM&amp;S) and maintain clear audit trails to permit the tracing of transactions from source documentation to comply with established policy requiring source documentation for the reported OM&amp;S dollar values.</p> <p>The Navy has not maintained historical cost data in legacy financial systems to comply with Government Accepted Accounting Principles. Legacy systems were designed for material management purposes but not designed to capture any financial information, therefore, the Navy cannot maintain the historical cost data necessary to comply with SFFAS.</p>			
<b>Reporting Category</b>	Plan-to-Stock	<b>First Year Reported</b>	FY 2005
<b>Original Target Date</b>	4th Quarter, FY 2011	<b>Current Target Date</b>	4th Quarter, FY 2017
Corrective Action Summary			
<p>The Navy issued new guidance on OM&amp;S accounting and accountability through SECNAVINST 4440.33A as of 3 December 2014. The Navy is focusing on identifying the universe of reportable OM&amp;S that does not fall within SFFAS No. 3 Accounting for Inventory and Related Property. Over half of the known OM&amp;S balance is composed of ordnance and Uninstalled Aircraft Engines (UAE).</p> <p>Ordnance was asserted in February 2013 and was subsequently reviewed by DoDIG for Shore, Afloat, and OCONUS based on ordnance (three separate audits). In each case, the Navy ordnance passed existence and completeness testing. A UAE existence and completeness assertion was signed on 20 December 2013. Validation was conducted by the DoDIG on 2 October 2014; the Navy continues sustainment efforts of ashore ordnance and UAE. The Navy will be revalidating existence and completeness along with valuation for both ordnance and UAE in FY 2017. The current focus of the Navy is assessment and corrective actions over all remaining materials; which are identified for OM&amp;S Remainder.</p> <p>An analysis and migration of OM&amp;S transactional data into Navy ERP was performed to alleviate the legacy financial systems identified weaknesses. Based upon the result of the examinations and on-going FIAR assessment findings, Navy ERP material accounting and accountability issues have been identified. The Navy initiated the implementation of Change Request 482 that is intended to correct Navy ERP accounting treatment for cost-type contracts that are used to procure materials and support accurate unit price calculations.</p> <p>An assessment period of two quarters is established for completion of validation procedures.</p> <p>Impediments to completing the CAP include MHA reductions and legacy financial system limitations with limited funding allocated for required changes.</p>			



Description of Material Weakness			
<p>There are multiple widespread issues with governance, oversight, quality of service, supportability, systems and control over Pay and Personnel functions resulting in lack of timely, accurate and supported pay and personnel transactions. Insufficient internal controls and oversight regarding roles and responsibilities, separation of duties, enforcement, and system access to identify trends, deficiencies, and corrective actions have been identified. Additionally, the DON military pay and financial management system lacks modern capabilities to support auditability.</p>			
<b>Reporting Category:</b>	Hire-to-Retire	<b>First Year Reported:</b>	FY 2015
<b>Original Target Date:</b>	4th Quarter, FY 2023	<b>Current Target Date:</b>	2nd Quarter, FY 2021
Corrective Action Summary			
<p>Develop an integrated personnel and pay information system for the Navy. The system will be designed to determine pay and entitlements; report ad hoc financial management data; capture and store KSDs; respond to changes in legislation, regulation, and policy; and allow seamless transition between Active and Reserve Components.</p> <p>Update Office of Naval Operations Instruction 5200.45 to clearly delineate the roles and responsibilities of the organizations responsible for personnel and pay service delivery and Military Pay (MILPAY) auditability.</p> <p>Complete an assessment of the current constraints associated with maintaining human resource IT application currency in the afloat environment.</p> <p>Design and implement an infrastructure for training and maintaining a military and civilian workforce whose responsibility is to provide pay and personnel services and insure audit compliance for the Navy's MILPAY budget.</p> <p>Develop and implement a framework for an internal control and compliance program for each key functional organization in the pay and personnel process.</p> <p>Identify the gaps and/or shortcomings in current record retention procedures. Assess available tools and best practices and implement recommendations on standardization to support audit compliance.</p> <p>An assessment period of two quarters is established for completion of validation procedures.</p> <p>MHA reduction will impact ability to achieve required CAP milestones.</p>			

Description of Material Weakness			
DFAS has insufficient controls to validate Visual Inter-fund System Transaction Accountability (VISTA) functionality when assigning a line of accounting to Inter-fund bills for MILSTRIP obligations or disbursements on the GL.			
Reporting Category	Plan-to-Stock	First Year Reported	FY 2013
Original Target Date	4th Quarter, FY 2013	Current Target Date	4th Quarter, FY 2017
Corrective Action Summary			
<p>Automated application controls to test hard-coded business logic were designed to address the deficiency and reduce the overall risk that the DON may overstate or understate disbursements on the financial statements. VISTA is audit ready; sustainment FISCAM testing is performed on an annual basis. DFAS implemented an iterative approach; testing key controls and then remaining controls. To date, 67 critical controls have been identified and tested; 43 are designed and operating effectively, 6 are designed effectively, 18 are in the process of being remediated, and 41 are not applicable to VISTA. Testing and remediation of all controls (including non-critical) is on-going. A significant number of FISCAM controls have been remediated and the risks associated with this application have been minimized.</p> <p>An assessment period of two quarters is established for completion of validation procedures.</p> <p>MHA reduction will impact ability to achieve required CAP milestones.</p>			

Description of Material Weakness			
<p>Building Partner Capacity (BPC) is funded through a variety of government appropriations with various periods of availability. BPC funds are transferred to the Foreign Military Sales (FMS) Trust Fund for execution, which shows a no-year appropriation. DoD appropriations within the FMS Trust Fund have expiration dates. Contracts written in support of BPC cases show the no-year line of accounting, which does not correctly display the expiration date of the funds. This increases the risk of obligations being made past the funds expiration date; potentially resulting in an ADA violation.</p>			
<b>Reporting Category</b>	Budget-to-Report	<b>First Year Reported</b>	FY 2015
<b>Original Target Date</b>	4th Quarter, FY 2015	<b>Current Target Date</b>	4th Quarter, FY 2017
Corrective Action Summary			
<p>Marine Corps Systems Command (MCSC) developed internal controls to update the line of accounting. USMC personnel previously stated that corrective actions were completed in 3rd Quarter, FY 2015; however, there were no available artifacts or evidence of a validation process to support that the remediation of the deficiency was successful. MCSC will coordinate with the associated Major Assessable Units to obtain this information as milestones are accomplished per submitted CAPs in FY 2017.</p> <p>An assessment period of two quarters is established for completion of validation procedures.</p> <p>MHA reduction will impact ability to achieve required CAP milestones.</p>			

Description of Material Weakness			
<p>The Defense Logistics Agency and the General Services Administration (GSA) established offline requisition systems to access and purchase cataloged or GSA schedule products. Because these systems did not include the necessary interfaces with the Marine Corps supply and financial automated systems, incomplete information resulted in invalid accounting entries and Prompt Payment Act violations. (This issue is one of the causes relating to the weakness in timely recording of obligations).</p>			
<b>Reporting Category</b>	Plan-to-Stock	<b>First Year Reported</b>	FY 2009
<b>Original Target Date</b>	2nd Quarter, FY 2010	<b>Current Target Date</b>	3rd Quarter, FY 2017
Corrective Action Summary			
<p>USMC addresses issues regarding offline requisitions through training and further policy/process refinement. Result indicators include, but are not limited to, the MILSTRIP Tri-Annual Review Reporting Status, the Material Receipt Acknowledgement Summary Analysis, Unliquidated Orders reviews, Web-Portal restrictions and Quarterly (Supply and Financial) Data Analysis, and the Disbursement Notification Record Unmatched File. Each indicator compiles and analyzes data relevant to the noted deficiency, and provides a managerial perspective to internal control performance and effectiveness. The HQMC Internal Review team will perform internal validation testing in 3rd Quarter, FY 2017 to determine if appropriate corrective actions have been taken to remediate the deficiency.</p> <p>An assessment period of two quarters is established for completion of validation procedures.</p> <p>MHA reduction will impact ability to achieve required CAP milestones.</p>			

**Material Weaknesses Corrected During the Period:**

No ICOFR material weaknesses were corrected during the period.

**TAB D-1**

**FINANCIAL MANAGEMENT SYSTEMS MATERIAL  
WEAKNESSES/NONCONFORMANCES AND CORRECTIVE ACTIONS**

The Department of the Navy (DON) worked with stakeholders to perform an assessment of the 20 Internal Controls over Financial Systems (ICOFS) material weaknesses reported in the FY 2015 DON Statement of Assurance (SOA). This review identified material weaknesses that have been consolidated based on similarity of material weakness content and/or similarity of corrective actions required to remediate the deficiency. The consolidation reduced the prior year material weaknesses reported on the SOA from 20 to 9.

The following table lists the non-conformances/material weaknesses in ICOFS for FY 2016 and incorporates changes from the FY 2015 DON SOA.

<b>Effectiveness of Internal Controls over Financial Systems (FMFIA Section 2)</b>						
<b>Statement of Assurance: Modified Assurance</b>						
<b>Non-Conformances</b>	<b>FY 2016 Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Reassessed</b>	<b>FY 2016 Ending Balance</b>
Financial Management Systems	20			(11)		9
<b>Total System Conformance Material Weaknesses</b>	<b>20</b>			<b>(11)</b>		<b>9</b>

**Uncorrected Material Weaknesses/Nonconformances Identified During the Period:**

The DON performed an analysis of material weaknesses reported in the FY 2015 DON SOA, Schedule of Budgetary Activity (SBA) Audit Notice of Findings and Recommendations (NFRs) and related Corrective Action Plans (CAPs), and external audit reports. This analysis did not identify any new ICOFS material weaknesses.

**Uncorrected Material Weaknesses/Nonconformances Identified During Prior Periods:**

Description of Material Weakness			
Navy Enterprise Resource Planning (ERP) system currently has Segregation of Duty (SOD) deficiencies, including incompatible roles, SOD matrix, periodic reviews, SOD conflicts, privileged users, policies and procedures documentation, and extensive permissions.			
<b>Reporting Category:</b>	Financial Management Systems	<b>First Year Reported:</b>	FY 2015
<b>Original Target Date:</b>	2nd Quarter, FY 2016	<b>Current Target Date:</b>	2nd Quarter, FY 2017
Corrective Action Summary			
<p>The Navy ERP Program Management Office (PMO) deployed a Governance Risk Compliance tool which identified 120 SOD risks. Policies and procedures to manage and monitor these SOD deficiencies and risks have been developed and include:</p> <ul style="list-style-type: none"><li>• SOD Matrix, allowable incompatible duties and privileged users (Status: Complete);</li><li>• Documented process for granting access to key systems (i.e., financial and operational systems) (Status: Complete);</li><li>• Periodic review of access to systems by management (i.e., quarterly access reviews) (Status: First review planned in 2nd Quarter, FY 2017); and</li><li>• Management of privileged user accounts (i.e., administrative accounts and super user), inactive or terminated accounts, as well as guest or default accounts (Status: Complete).</li></ul> <p>An assessment period of two quarters is established for completion of validation procedures.</p> <p>An impediment to the completion of this CAP is the resources and time needed for the Navy ERP Budget Submitting Offices (BSOs) to conduct quarterly user access reviews. In addition, Major Headquarters Activity (MHA) reduction will impact ability to achieve required CAP milestones.</p>			



Description of Material Weakness			
The Navy ERP system is currently not compliant with the Standard Financial Information Structure (SFIS), which is updated regularly and part of the Department of Defense (DoD) Business Enterprise Architecture handling financial management.			
<b>Reporting Category:</b>	Financial Management Systems	<b>First Year Reported:</b>	FY 2015
<b>Original Target Date:</b>	4th Quarter, FY 2017	<b>Current Target Date:</b>	4th Quarter, FY 2017
Corrective Action Summary			
<p>Office of Financial Policy and Systems (FMP) is working with the Navy ERP PMO and Navy ERP Sustainment Team, Naval Supply Systems Command (NAVSUP) Business Systems Center, to plan the completion of the SFIS compliance work that will result in the updates of 19 SFIS data elements. To date, 51 of 70 SFIS data elements have been implemented.</p> <p>A technical upgrade is currently scheduled to be completed by the 3rd Quarter, FY 2017. Of the 19 SFIS data elements, eight will be completed by a technical upgrade, leaving 11 data elements to be incorporated into the Navy ERP FY 2017 work plan.</p> <p>An assessment period of two quarters is established for completion of validation procedures.</p> <p>Impediments to remediating the CAP: (1) SFIS is considered a lower priority audit change; and (2) resources tasked with supporting Navy ERP are limited and constrained. Due to these impediments, progress was not made during FY 2016. In addition, MHA reduction will impact ability to achieve required CAP milestones.</p>			

Description of Material Weakness			
DON Systems have deficiencies in multiple Federal Information System Controls Audit Manual (FISCAM) domains to include access control, configuration management, system and information integrity, audit and accountability, system and service acquisitions, and identification and authorization. <sup>8</sup>			
<b>Reporting Category:</b>	Financial Management Systems	<b>First Year Reported:</b>	FY 2011
<b>Original Target Date:</b>	2nd Quarter, FY 2012	<b>Current Target Date:</b>	4th Quarter, FY 2017
Corrective Action Summary			
<p>FISCAM Assessment Teams identified the need for 695 CAPs to be implemented for numerous systems; of those 392 have been closed. The Navy FY 2015 Independent Public Auditor (IPA) issued 181 NFRs and 121 have been submitted to the IPA for testing.</p> <p>System owners are currently responsible for the remaining FISCAM CAPs and support is available to advise and validate the closing of the FISCAM CAPs. System owners will work with the SBA auditors and FMP Audit Support Teams to address FISCAM/NFR CAPs and transition to RMF and the Information System Continuous Monitoring (ISCM) Program. The United States Marine Corps (USMC) developed and implemented CAPs for NFRs and will perform internal validation procedures over all implemented CAPs in 2nd Quarter, FY 2017.</p> <p>The pervasiveness of the deficiencies was demonstrated by the impacted information systems across the DON to include Naval Air Systems Command, Naval Facilities Engineering Command (NAVFAC), Naval Sea Systems Command (NAVSEA), NAVSUP, Commander, Navy Installations Command (CNIC), Department of the Navy Assistant for Administration (DON/AA), Commander, U.S. Pacific Fleet (PACFLT), Naval Special Warfare Command (SPECWAR), and Office of Civilian Human Resources, Space Naval Warfare Systems Command, and USMC.</p> <p>An assessment period of two quarters is established for completion of validation procedures.</p> <p>Overall resource constraints resulted in impediments to FISCAM CAP remediation. Completing requirements, such as supporting the Financial Management (FM) Overlay to the Risk Management Framework (RMF) Transition Prioritization, stretched already limited resources. Future NFRs and audit requirements will further strain system owner resources. In addition, MHA reduction will impact ability to achieve required CAP milestones.</p>			

<sup>8</sup> This represents a consolidation of seven material weaknesses reported on the FY 2015 DON SOA. Refer to Attachment 1-7/8 for information on material weaknesses that were consolidated for FY 2016 reporting.

Description of Material Weakness			
Standard Accounting and Reporting System – Field Level (STARS-FL) deficiencies including interface issues, business process transaction policy, procedures, and documentation issues along with master data issues. <sup>9</sup>			
<b>Reporting Category:</b>	Financial Management Systems	<b>First Year Reported:</b>	FY 2015
<b>Original Target Date:</b>	4th Quarter, FY 2017	<b>Current Target Date:</b>	4th Quarter, FY 2017
Corrective Action Summary			
<p>STARS-FL has deficiencies in the areas of interface policy and processing; transactional input, processing and outputs; and data management.</p> <p>A STARS-FL policy and procedure update is in progress to outline data authorization and validation, completeness of transactions, audit documentation, and transaction corrections to remediate design deficiencies. In addition to the updated policy requirements, several Memoranda of Agreement (MOAs) have been created delineating the responsibilities and requirements across the data transmission process. Data management deficiencies will be addressed in coordination with the interface policy and procedure updates to ensure proper compliance.</p> <p>An assessment period of two quarters is established for completion of validation procedures.</p> <p>A STARS-FL System Change Request, to address interface issues and data transmission, is in-progress by the system central design agency and partnering financial system managers. In addition, MHA reduction will impact ability to achieve required CAP milestones.</p>			

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<sup>9</sup> This represents a consolidation of six material weaknesses reported on the FY 2015 DON SOA. Refer to Attachment 1-9 for information on material weaknesses that were consolidated for FY 2016 reporting.

Description of Material Weakness			
The deficiencies for Global Combat Support System - Marine Corps span across multiple control categories defined in the Government Accountability Office FISCAM, including application level general controls, access controls, system interfaces, and configuration management controls.			
<b>Reporting Category:</b>	Financial Management Systems	<b>First Year Reported:</b>	FY 2014
<b>Original Target Date:</b>	3rd Quarter, FY 2015	<b>Current Target Date:</b>	2nd Quarter, FY 2017
Corrective Action Summary			
<p>USMC will continue to implement and monitor corrective actions, including technical solutions, contingency plan testing and the development and implementation of policies and procedures, which have been identified in the Plan of Action &amp; Milestones and applicable CAPs.</p> <p>Internal validation testing will occur in 2nd Quarter, FY 2017 to determine if appropriate action has been taken to remediate the identified deficiencies.</p> <p>MHA reduction will impact ability to achieve required CAP milestones.</p>			

Description of Material Weakness			
STARS-FL has numerous deficiencies in the areas of segregation of duties, reconciliation, pre-validation edit checks, and other internal controls.			
<b>Reporting Category:</b>	Financial Management Systems	<b>First Year Reported:</b>	FY 2015
<b>Original Target Date:</b>	4th Quarter, FY 2025	<b>Current Target Date:</b>	4th Quarter, FY 2017
Corrective Action Summary			
<p>The Navy has determined that the material weaknesses in STARS-FL and its feeder systems are not solvable in the near-term and instead require implementation of an audit ready core financial system. Accordingly, Navy Commands reliant on STARS-FL are being transitioned to Standard Accounting Budgeting Reporting System (SABRS). DON/AA successfully transitioned to SABRS on 1 October 2015. The transition plan of the remaining BSOs has three BSOs (CNIC, Field Support Activity (FSA), and Naval Intelligence Activity (NIA)) migrating in FY 2017 and six BSOs (Fleet Force Command (FFC), PACFLT, Bureau of Navy Personnel (BUPERS), Commander, Navy Reserve Force (RESFOR), SPECWAR, and NAVFAC) migrating by FY 2018.</p> <p>While migrating DON/AA to SABRS has proved feasible, discovery activities at remaining BSOs have revealed issues that require the creation of new system interfaces between feeder systems and SABRS. These include interfaces between SABRS and CFMS, R-Supply and SYMIS/COST. Ongoing discovery efforts at the Deployment 2 BSOs (CNIC, FSA, and NIA) and Deployment 3 (D3) BSOs (FFC, PACFLT, BUPERS, RESFOR, SPECWAR, and NAVFAC) are designed to identify the full range of issues so that efficient, cost-effective solutions may be developed.</p> <p>An assessment period of two quarters is established for completion of validation procedures.</p> <p>MHA reduction will impact ability to achieve required CAP milestones.</p>			

Description of Material Weakness			
The DoD Information Assurance Accreditation and Certification Process (DIACAP) failed to produce the audit ready control environment delineated in the National Institute of Standards of Technology (NIST) Special Publications and FISCAM.			
<b>Reporting Category:</b>	Financial Management Systems	<b>First Year Reported:</b>	FY 2015
<b>Original Target Date:</b>	2nd Quarter, FY 2016	<b>Current Target Date:</b>	4th Quarter, FY 2017
Corrective Action Summary			
<p>The DoD's transition from DIACAP to the RMF is being implemented across all DoD systems. On 1 May 2016, the DON created and implemented a Financial Management Overlay to the RMF for financially relevant systems. The FM Overlay Controls include Access Control, Audit and Accountability, Configuration Management, Identification and Authentication and all controls for policies and procedures for the remaining 14 NIST control families.</p> <p>The DON created a Continuous Monitoring Program to ensure FM Overlay controls are tested on an annual basis. This program will implement annual testing of Access Control, Audit and Accountability, Configuration Management, Identification and Authentication controls. One third of the remaining fourteen control families that are not a part of the annual scope will be tested annually with the intent of assessing all controls within a three-year period.</p> <p>An assessment period of two quarters is established for completion of validation procedures.</p> <p>MHA reduction will impact ability to achieve required CAP milestones.</p>			

Description of Material Weakness			
Financial System Owners lack standardized and specific control criteria guidance.			
<b>Reporting Category:</b>	Financial Management Systems	<b>First Year Reported:</b>	FY 2015
<b>Original Target Date:</b>	1st Quarter, FY 2016	<b>Current Target Date:</b>	4th Quarter, FY 2017
Corrective Action Summary			
<p>In December 2015, the Navy published eighteen Enterprise Control Standardization Guidebooks providing financial statement audit-based DON Enterprise Information Technology (IT) Control Standards for the NIST control families identified in the RMF. The guidebooks are an integral part of the RMF FM Overlay and the Continuous Monitoring Program annual testing. These IT control standards provide the overall framework for designing, implementing, and operating effective financial systems. Navy System Owners will utilize these IT Control Standards provided in the guidebook in conjunction with the RMF process to standardize practices across the Navy.</p> <p>An assessment period of two quarters is established for completion of validation procedures.</p> <p>MHA reduction will impact ability to achieve required CAP milestones.</p>			



Description of Material Weakness			
The DON lacked a governance forum to address financial systems planning and control implementation and management at the Enterprise level.			
<b>Reporting Category:</b>	Financial Management Systems	<b>First Year Reported:</b>	FY 2015
<b>Original Target Date:</b>	1st Quarter, FY 2016	<b>Current Target Date:</b>	4th Quarter, FY 2017
Corrective Action Summary			
<p>The DON chartered the Financial Information System Working Group (FISWG) to support audit readiness and address resolution of enterprise audit related deficiencies. The FISWG is a recurring forum, chaired by representatives from FMP and DON Chief Information Officer, with participation from Navy and USMC Commands, to govern and address enterprise financial management systems challenges throughout the DON.</p> <p>An assessment period of two quarters is established for completion of validation procedures.</p> <p>MHA reduction will impact ability to achieve required CAP milestones.</p>			

**Material Weaknesses/Nonconformances Corrected During the Period:**

No ICOFS material weaknesses were corrected during the period.

## **TAB E-1**

### **DON ASSESSMENT OF INTERNAL CONTROL OVER ACQUISITION FUNCTIONS**

#### **Objective**

As required by Office of Management and Budget (OMB) Circular No. A-123, the DON provides this summary of its Assessment of Internal Control over Acquisition Functions using the guidelines set forth in OMB Circular No. A-123 and Office of the Under Secretary of Defense (Acquisition, Technology and Logistics) (OUSD (AT&L)) Guidance. This effort focused on determining whether any (new) deficiencies or material weaknesses exist within the DON and associated corrective action plans.

#### **Scope**

This assessment defines Assistant Secretary of the Navy for Research, Development, and Acquisitions (ASN (RD&A)) as the Service Acquisition Executive (SAE), referenced as the Component Acquisition Executive or the Naval Acquisition Executive (NAE). In this position, ASN (RD&A) is the appropriate entity for internal control over acquisition functions. Policies, processes, and acquisition activities across the Systems Commands (SYSCOMs) and Program Executive Offices (PEOs) were evaluated for compliance and execution of established internal controls as stated below.

#### **Assessment Execution**

Department of Defense (DoD) and OMB templates were used as the primary guides for assessing the effectiveness of internal controls over acquisition functions. The Department of the Navy (DON) implementation of controls established in DoDI 5000.02 “Operation of the Defense Acquisition System” dated 7 January 2015 were evaluated in comparison to elements of OMB Circular No. A-123 cornerstones (organizational alignment and leadership, policies and processes, human capital, and information management and stewardship).

#### **Internal Controls**

Secretary of the Navy Instruction (SECNAVINST) 5000.2E dated 1 September 2011 serves as the fundamental internal control policy for implementation and compliance with statutory and regulatory requirements of DoDI 5000.02. SECNAVINST 5000.2E applies to all acquisition programs: Abbreviated Acquisition Programs, non-acquisition programs, and Rapid Deployment Capability programs.

The DON Gate Review process established on 26 February 2008 via Secretary of the Navy Note 5000, subsequently incorporated into SECNAVINST 5000.2E, is the primary mechanism for program insight and governance of Acquisition Category (ACAT) I and selected ACAT II programs. The Gate Review process ensures alignment between service-generated capability requirements and acquisition, as well as improving senior leadership decision-making through better understanding of risks and costs throughout a program’s entire lifecycle. Overall program health is assessed at each Gate Review and addressed in the resulting decision document upon completion of the review.

Current Program Decision Meetings (PDM) as set forth in SECNAVINST 5420.188F dated 2 November 2005 provide the forum for the NAE to review program cost, schedule and performance in preparation for a key acquisition decision. These forums may be integrated with the updated Gate Review process. PEOs, SYSCOMs, Direct Reporting Program Managers (DRPM) and other ASN (RD&A) designees are responsible for assigned programs.

SECNAVINST 5400.15C dated 2 December 2011 documents duties and responsibilities of ASN (RD&A), PEOs, DRPMs, Chief of Naval Operations (CNO), CMC, and SYSCOM Commanders. Duties addressed in this policy focus on research and development, acquisition and associated life cycle management and logistics responsibilities. This guidance also emphasizes the necessity for careful management and close oversight by DON leaders to properly account for resources and deliver quality products.

The Navy Marine Corps Acquisition Regulation Supplement (NMCARS) establishes uniform DON policies and procedures implementing and supplementing the Federal Acquisition Regulation (FAR) and the Defense FAR Supplement (DFARS). The NMCARS is prepared, issued, and maintained pursuant to the authority of SECNAVINST 5400.15C and applies to all DON activities in the same manner and to the same extent as specified in FAR 1.104 and DFARS 201.104.

ASN (RD&A) Information System (RDAIS) is a live database that provides ASN (RD&A), Office of the Chief of Naval Operations (OPNAV), Headquarters Marine Corps (HQMC), SYSCOMs, PEOs, DRPMs, and the PMs a tool to manage the various ACAT programs with consistent data throughout the Chain-of-Command. PMs must complete RDAIS updates for ACAT I, II, and III programs on a quarterly basis. RDAIS requires general information regarding program milestones and status as well as detailed information addressing program assessment, budget, and metrics information.

The DON uses the Earned Value Management System (EVMS) as a metric to measure contractor performance. Earned Value is an element of program health assessed during the Gate 6 review following the PM's Integrated Baseline Review (IBR) with the contractor. IBR objectives include the following measures: (1) assessing the Performance Measurement Baseline (PMB) adequacy, including identification of risks; (2) achieving a mutual understanding of the PMB and its relationship to EVMS; (3) ensuring tasks are planned and objectively measurable relative to technical progress; (4) attaining agreement on a plan of action to evaluate any identified risks; and (5) quantifying the identified risks and providing an updated estimation at completion.

### **Findings**

Indicators of practices and activities that facilitate good acquisition outcomes include, but are not limited to, the Naval Capabilities Board (NCB); Resources & Requirements Review Board (R3B); Configuration Steering Boards (CSBs); requirement for Independent Cost Estimates; requirement for program Independent Operational Test and Evaluation; and the use of Integrated Product Teams (IPTs).

The NCB/R3B recommends validation of all war fighting requirements, including Key Performance Parameters and Key System Attributes. The R3B is the Navy's forum for

reviewing and making decisions on Navy requirements and resource issues. The R3B acts as the focal point for decision-making regarding DON requirements: the validation of non-acquisition related, emergent, and joint requirements; the synchronization of Planning, Programming, Budgeting, and Execution milestones; and resolution of cross-enterprise or cross-sponsor issues.

The DON has implemented the DoD requirement for annual CSBs by integrating this function into the Gate Review process. ASN (RD&A) chairs the Gate 6 CSB, a broad membership panel that includes representation from the Acquisition, Requirements, and Resourcing communities. Gate 6 CSBs review all requirements changes and significant technical configuration changes which have the potential to impact cost and schedule changes within the program.

The Naval Center for Cost Analysis (NCCA) prepares life cycle ICEs for those programs delegated to the SAE as Milestone Decision Authority (MDA). NCCA also conducts component cost analyses for joint programs for which the DON is the lead. NCCA chairs a DON Cost Assessment review of program office and independent lifecycle cost estimates and component cost analyses to support major milestone decisions for designated programs. Formal presentations of estimates are made to the Director, NCCA. Differences in estimates are noted, explained, and documented in a memorandum from NCCA to ASN (RD&A).

The Commander, Operational Test and Evaluation Force (COMOPTEVFOR) and Director, Marine Corps Operational Test and Evaluation Activity are responsible for independent Operational Training and Evaluation (OT&E) of assigned DON programs that require OT&E. COMOPTEVFOR plans, conducts, evaluates, and reports the OT&E of designated programs; monitors smaller category programs; evaluates initial tactics for systems that undergo OT&E; and makes fleet release or introduction recommendations to CNO for all programs and those configuration changes selected for OT&E.

An integral part of the defense acquisition process, IPTs are used to maintain continuous and effective communications and execute programs. IPTs may address issues regarding requirements/capabilities needs, acquisition strategy and execution, FM, milestone and decision review preparation, etc. MDAs and PMs are responsible for making decisions and leading execution of their programs through IPTs. IPTs typically include representation from acquisition functional areas including program management; cost estimating; budget and FM; contracting; engineering; test and evaluation; logistics; software development; production/quality control; safety, etc. The DON effectively balances the use of IPTs with the SECNAVINST 5000.2E requirement for PEOs, SYSCOMs, DRPMs, and PMs to ensure separation of functions in order to ensure that authority to conduct oversight, source selection, and contract negotiations/award does not reside in one person.

### **Possible Performance Gaps and Corrective Actions**

Some programs continue to execute over cost and behind schedule. Numerous efforts and policy/process updates are underway within the DON to improve Acquisition program performance and outcomes including implementation of the new OUSD (AT&L) Better Buying Power 3.0 Initiatives continue to emphasize ways to improve the acquisition of products and services by improving efficiencies through use of cost analysis; competitive prototyping; open system architecture that enable competition for hardware and software upgrades; acquisition of

technical data packages; increased market research and continued emphasis on increased competition; and improving small business participation.

Another performance gap identified was the contract management and administration. Corrective actions include: DASN Acquisition and Procurement (AP), with the assistance of DON supporting activities, continues to place greater scrutiny on the requirements and practices for acquiring services through the use of Service Requirements Review Board (SRRB) process, also known as 'Contracts Courts'. Increased emphasis on the use of the SRRB process is designed to improve the proper use of performance-based contracting, avoid duplication of services, provide increased opportunity for small businesses, and increase competition.

Increased emphasis has been placed on training for those involved in services acquisitions through required use of Services Acquisition Workshops early in the process; on recruitment and training for Contracting Officer's Representative in their management and surveillance responsibilities after a services contract is awarded; and on properly resourcing and establishing oversight organizations for contract management and administration. Additional efforts have been undertaken to pursue suspensions and debarments to address misconduct and poor performance of DON contractors, including a requirement for referral of contract Terminations for Default to the DON Acquisition Integrity Office.

The DON continues to execute the Health Assessment process whereby a thorough review of Command level processes for contract administration and requirements generation are reviewed for best practices and areas of improvement and has begun conducting Health Assessment reviews at select Command field activities. Additionally, the DON has made improvements to the Procurement Performance Management Assessment Program with improved guidance and increased contract management oversight, compliance reviews across the enterprise, and requirements for corrective action and associated training where deficiencies are found.

**Assessment of Internal Control over Acquisition Functions Template:**

Cornerstones	Control Environment	Risk Assessment	Control Activities	Monitoring
<b>Organizational Alignment and Leadership</b> <ul style="list-style-type: none"> <li>Aligning Acquisition with Agency Mission and Needs</li> <li>Commitment from Leadership</li> </ul>	<b>Streamlined and Effective Management</b> Responsibility for the acquisition of systems shall be decentralized to the maximum extent practicable. The MDA shall provide a single individual with sufficient authority to accomplish MDA approved program objectives.	<b>Risk Area A</b> Accountability in program execution as directed by the MDA. Credibility in cost and schedule reporting due to contractors/vendor providing unrealistic cost and schedule estimates. Unforeseen technical problems. Price increases for specialty metals.	<b>SECNAVINST 5430.7Q Section 7.b.(2)(g)</b> Establish policy, procedures and oversight of competition, product and procurement integrity and accountability and viability of the defense industrial base.	ASN (RD&A) has established a Deputy Assistant Secretary of the Navy (Acquisition and Procurement) (DASN (AP)) who serves as the DON Competition Advocate General. DASN (AP) is directly responsible and accountable to ASN (RD&A).
<b>Organizational Alignment and Leadership</b> <ul style="list-style-type: none"> <li>Aligning Acquisition with Agency Mission and Needs</li> <li>Commitment from Leadership</li> </ul>	<b>Streamlined and Effective Management</b> Responsibility for the acquisition of systems shall be decentralized to the maximum extent practicable. The MDA shall provide a single individual with sufficient authority to accomplish MDA approved program objectives.	<b>Risk Area A</b> Accountability in program execution as directed by the MDA. Credibility in cost and schedule reporting due to contractors/vendor providing unrealistic cost and schedule estimates. Unforeseen technical problems. Price increases for specialty metals.	<b>SECNAVINST 5430.7Q Section 7.b.(2)(l)</b> Provide oversight to ensure new and upgraded system supportability and sustainment capabilities.	The Secretary of Defense requires Military Department Secretaries to designate a single civilian official, at the Assistant Secretary-level within each Military Department, as the SAE with full-time responsibility for all Service acquisition functions. ASN (RD&A), as the DON SAE, is directly responsible and accountable to SECNAV for the execution of responsibilities associated with program development, execution, and sustainment (in conjunction with OPNAV (N4)).
<b>Organizational Alignment and Leadership</b> <ul style="list-style-type: none"> <li>Aligning Acquisition with Agency Mission and Needs</li> </ul>	<b>Streamlined and Effective Management</b> Responsibility for the acquisition of systems shall be decentralized to the maximum extent	<b>Risk Area A</b> Accountability in program execution as directed by the MDA. Credibility in cost and schedule reporting due to	<b>SECNAVINST 5430.7Q Section 7.b.(2)(s)</b> Supervise PEOs and DRPMs.	SECNAVINST 5400.15C assigns responsibility to CNO and Commandant of Marine Corps for determining requirements and establishing the relative priority of those requirements, and for



Cornerstones	Control Environment	Risk Assessment	Control Activities	Monitoring
<ul style="list-style-type: none"> <li>Commitment from Leadership</li> </ul>	practicable. The MDA shall provide a single individual with sufficient authority to accomplish MDA approved program objectives.	contractors/vendors providing unrealistic cost and schedule estimates. Unforeseen technical problems. Price increases for specialty metals.		OT&E. DON requirements determination, review, and approval are accomplished through OPNAV's NCB and Resources, Requirements, and Review Board Annual CSBs provide monitoring and oversight or requirements stability and cost-trade benefits to curtail requirements growth.
<b>Organizational Alignment and Leadership</b> <ul style="list-style-type: none"> <li>Aligning Acquisition with Agency Mission and Needs</li> <li>Commitment from Leadership</li> </ul>	<b>Streamlined and Effective Management</b> Responsibility for the acquisition of systems shall be decentralized to the maximum extent practicable. The MDA shall provide a single individual with sufficient authority to accomplish MDA approved program objectives.	<b>Risk Area A</b> Accountability in program execution as directed by the MDA. Credibility in cost and schedule reporting due to contractors/vendor providing unrealistic cost and schedule estimates. Unforeseen technical problems. Price increases for specialty metals.	<b>SECNAVINST 5400.15C Section 4.b.</b> The Secretary of Defense requires Secretaries of the Military Departments to designate a single civilian official at the Assistant Secretary-level within each Military Department as the SAE with full-time responsibility for all service acquisition functions. ASN (RD&A) is the NAE for DON. The NAE has full responsibility for all DON acquisition programs through PEOs, DRPMs, or SYSCOM Commanders.	The Secretary of Defense requires Military Department Secretaries to designate a single civilian official, at the Assistant Secretary-level within each Military Department, as the SAE with full-time responsibility for all Service acquisition functions. ASN (RD&A) as the DON SAE is directly responsible and accountable to Secretary of the Navy (SECNAV) for the execution of responsibilities associated with program development, execution, and sustainment (in conjunction with OPNAV N4).
<b>Policies and Processes</b>	<b>Collaboration</b> The DoD acquisition,	<b>Risk Area C</b> Delays in getting the program	<b>SECNAVINST 5000.2E Section 1.11.3</b>	The Two-Pass/Six-Gate process will be implemented in an



Cornerstones	Control Environment	Risk Assessment	Control Activities	Monitoring
<ul style="list-style-type: none"> <li>▪ Planning Strategically</li> <li>▪ Effectively Managing the Acquisition Process</li> <li>▪ Promoting Successful Outcomes of Major Projects</li> </ul>	<p>capability needs, and financial communities, and operational users shall maintain continuous and effective communications with each other by using IPTs. Teaming among warfighters, users, developers, acquirers, technologists, testers, budgeters, and sustainers shall begin during capability needs definition. MDAs and PMs are responsible for making decisions and leading execution of their programs and are accountable for results (Ref. Department of Defense Directive (DoDD) 5000.01, E1.2).</p>	<p>executed and possible cancellation.</p>	<p>The Two-Pass/Six-Gate review process will be implemented in an integrated, collaborative environment that includes participation by appropriate elements from the Office of the SECNAV, OPNAV, HQMC, and activities involved in developing Joint Capabilities Integration and Development System (JCIDS) and acquisition documents. The process applies to all pre-Major Defense Acquisition Program (MDAP) programs, all MDAP (ACAT I) programs, all pre-Major Automated Information System (MAIS) programs, all MAIS (ACAT IA) programs, and selected ACAT II programs as determined by CNO (N8) or Deputy Commandant, Combat Development and Integration (CD&amp;I) and ASN (RD&amp;A). The Gate Reviews</p>	<p>integrated and collaborative environment that includes participation by SECNAV, OPNAV, HQMC, and activities involved in developing JCIDS and acquisition documents.</p>

Cornerstones	Control Environment	Risk Assessment	Control Activities	Monitoring
			<p>themselves and Service milestone PDMs or Program Reviews (PRs) should be combined when appropriate as determined by the SECNAV, CNO, CMC, or designee. If Gate Reviews and PDMs or PRs are combined, the acquisition requirements of DoDI 5000.02 and National Defense Authorization Act (NDAA) (section 332), and this instruction, including statutory and regulatory documentation, shall be satisfied and an Acquisition Decision Memorandum shall be issued by the MDA. Gate Reviews satisfy the Program Support Review risk assessment requirement of DoDI 5000.02.</p>	
<b>Policies and Processes</b> <ul style="list-style-type: none"> <li>▪ Planning Strategically</li> <li>▪ Effectively Managing the Acquisition Process</li> <li>▪ Promoting Successful</li> </ul>	<b>Collaboration</b> The DoD acquisition, capability needs, financial communities, and operational users shall maintain continuous and effective communications	<b>Risk Area C</b> Delays in getting the program executed or possible cancellation.	<b>SECNAVINST 5000.2E Section 1.11.4.4.2</b> Principal members are Vice Chief of Naval Operations (VCNO), Assistant Commandant Marine Corps (ACMC), ASN (RD&A), Assistant	Principal members of Gate Reviews include, but are not limited to, VCNO, ACMC, ASN (RD&A), ASN (FM&C), Naval Nuclear Propulsion Program (N00N) as required, Principal Military Deputy Assistant Secretary of the Navy, DCNO (N1 Manpower

Cornerstones	Control Environment	Risk Assessment	Control Activities	Monitoring
Outcomes of Major Projects	with each other by using IPTs. Teaming among warfighters, users, developers, acquirers, technologists, testers, budgeters, and sustainers shall begin during capability needs definition. MDAs and PMs are responsible for making decisions and leading execution of their programs and are accountable for results (Ref. DoDD 5000.01, E1.2).		Secretary of the Navy for Financial Management and Comptroller (ASN (FM&C)), Director N00N as required, Principal Deputy ASN (RD&A), Deputy Chief of Naval Operations (DCNO) (N1, N2, N3/N5, N4, N6, N8), Deputy Commandant for Programs and Resources (Deputy Commandant for Programs & Resources), Deputy Commandant CD&I, Warfare Enterprise Lead and/or Deputy, United States Fleet Forces (USFF)/Marine Corps Forces Command (MARFORCOM), and cognizant SYSCOM Commander. The Chair shall determine the final membership for each Gate review. However, the principal members may request attendance by other relevant commands. These members may include DON Chief Information Officer (CIO), Chief of Naval Research,	and Training, N2 Intelligence, N3/5 Information and Strategy, N4 Fleet Readiness and Logistics, N6 Communication Networks, N8 Integration of Capabilities and Resources), Deputy Commandant for Programs and Resources, Deputy Commandant CD&I, Warfare Enterprise Lead or Deputy, USFF/MARFORCOM, and cognizant SYSCOM Commander.

Cornerstones	Control Environment	Risk Assessment	Control Activities	Monitoring
			HQMC (Deputy Commandant for Aviation, Deputy Commandant for Manpower and Reserve Affairs (Deputy Commandant for Manpower and Reserve Affairs), Director Intel, Deputy Commandant for Plans, Policies and Operations, Deputy Commandant for Installations and Logistics, Director C4/CIO), and cognizant PEO. Attendance is limited to Principal or Deputy at the Flag/General Officer/SES-level plus one.	

Cornerstones	Control Environment	Risk Assessment	Control Activities	Monitoring
<b>Human Capital</b> <ul style="list-style-type: none"> <li>▪ Valuing and Investing in the Acquisition Workforce</li> <li>▪ Strategic Human Capital Planning</li> <li>▪ Acquiring, Developing, and Retaining Talent</li> <li>▪ Creating Results-Oriented Organizational Cultures</li> </ul>	<b>Professional Workforce</b> The DoD shall maintain a fully proficient acquisition, technology, and logistics workforce that is flexible and highly skilled across a range of management, technical, and business disciplines. To ensure this, the OUSD AT&L shall establish education, training, and experience standards for each acquisition position based on the level of complexity of duties carried out in that position (Ref. DoDD 5000.01, E1.19).	<b>Risk Area BQ</b> Insufficiently trained/skilled workforce required to develop, plan, structure, execute, manage, and sustain Acquisition programs.	<b>NDAA 2008, Section 852</b> Direct the establishment of the Defense Acquisition Workforce Development Fund.	Defense Acquisition Workforce Improvement Act (DAWIA) Requirements are specified for each billet and monitored by Competency Leaders.

Cornerstones	Control Environment	Risk Assessment	Control Activities	Monitoring
<b>Human Capital</b> <ul style="list-style-type: none"> <li>▪ Valuing and Investing in the Acquisition Workforce</li> <li>▪ Strategic Human Capital Planning</li> <li>▪ Acquiring, Developing, and Retaining Talent</li> <li>▪ Creating Results-Oriented Organizational Cultures</li> </ul>	<b>Professional Workforce</b> The DoD shall maintain a fully proficient acquisition, technology, and logistics workforce that is flexible and highly skilled across a range of management, technical, and business disciplines. To ensure this takes place, the OUSD AT&L shall establish education, training, and experience standards for each acquisition position based on the level of complexity of duties carried out in that position (Ref. DoDD 5000.01, E1.19).	<b>Risk Area BQ</b> Insufficiently trained/skilled workforce required to develop, plan, structure, execute, manage, and sustain Acquisition programs.	<b>Defense Acquisition Workforce Development Fund, dated 28 Jan 2008</b> This is to provide funds in addition to other funds available for recruitment, training, and retention; this ensures the acquisition workforce has the personnel and skills to perform its mission, provide oversight of contractor performance, and ensures that the DON receives the best value for the expenditure of public resources.	DAWIA Requirements are specified for each billet and monitored by Competency Leaders.

Cornerstones	Control Environment	Risk Assessment	Control Activities	Monitoring
<b>Human Capital</b> <ul style="list-style-type: none"> <li>Valuing and Investing in the Acquisition Workforce</li> <li>Strategic Human Capital Planning</li> <li>Acquiring, Developing, and Retaining Talent</li> <li>Creating Results-Oriented Organizational Cultures</li> </ul>	<b>Professional Workforce</b> The DoD shall maintain a fully proficient acquisition, technology, and logistics workforce that is flexible and highly skilled across a range of management, technical, and business disciplines. To ensure this, the OUSD AT&L shall establish education, training, and experience standards for each acquisition position based on the level of complexity of duties carried out in that position (Ref. DoDD 5000.01, E1.19).	<b>Risk Area BQ</b> Insufficiently trained/skilled workforce required to develop, plan, structure, execute, manage, and sustain Acquisition programs.	<b>Recruitment</b> Utilization of the various programs to attract, retain, and train a qualified workforce (i.e. Naval Acquisition Intern Program, Wounded Warrior Program, DON Journeyman Internship, Naval Shipyard Apprenticeship, etc.).	DAWIA Requirements are specified for each billet and monitored by Competency Leaders.
<b>Information Management &amp; Stewardship</b> <ul style="list-style-type: none"> <li>Identifying Data and Technology that Support Acquisition Management Decisions</li> <li>Safeguarding the Integrity of Operations and Data</li> </ul>	<b>Information Assurance (IA)</b> Acquisition managers shall address IA requirements for (1) all weapon systems, (2) Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance systems, and (3) IT programs that depend on external information sources or provide information to other DoD systems. DoD	<b>Risk Area V</b> Low - Potential for some areas to be overlooked due to the complexity, and number of standards and policies. In addition, there is potential for inconsistencies across the policies. This is being minimized via early and continued engagement throughout the lifecycle of Technical Authority (TA) and Subject Matter	<b>SECNAVINST 5000.2E</b> This instruction is to issue mandatory procedures for DON implementation of DoDD 5000.01, DoDI 5000.02, Chairman of the Joint Chiefs Staff Instruction (CJCSI) 3170.01G, Manual for the Operation of the Joint Capabilities Integration, and Development System for major and non-major defense acquisition	SETRs: designated TA works with the program team during design maturation and evolving lifecycle phases by guiding through the standards, objectives, policies and processes. Via the SETR process, TAs validate that the problem solving methods have occurred, technical risks have been identified, mitigation plans are in place and implemented, and monitoring of technical risks is on-going (CHSENG).

Cornerstones	Control Environment	Risk Assessment	Control Activities	Monitoring
	policy for IA of Information Technology (IT), including National Security Systems (NSS), appears in DoDD 8500.01E (Ref. DoDD 5000.01, E1.9).	Experts via the Naval Systems Engineering Technical Review (SETR) process (Chief Systems Engineer (CHSENG)).	programs and major and non-major IT acquisition programs.	
<b>Information Management &amp; Stewardship</b> <ul style="list-style-type: none"> <li>Identifying Data and Technology that Support Acquisition Management Decisions</li> <li>Safeguarding the Integrity of Operations and Data</li> </ul>	<b>IA</b> Acquisition managers shall address IA requirements for (1) all weapon systems, (2) Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance systems, and (3) IT programs that depend on external information sources or provide information to other DoD systems. DoD policy for IA of IT, including NSS, appears in DoDD 8500.01E (Ref. DoDD 5000.01, E1.9).	<b>Risk Area W</b> Requirements may not be clearly articulated in the Request for Proposals. Resource Constraints/Competing Resources. Unavailability of expertise within the Program Office (Naval Sea Systems Command (NAVSEA)).	<b>SECNAVINST 5000.2E Section 2.4.6.4</b> IA requirements shall be identified and included in the design, acquisition, installation, operation, upgrade, and replacement of all DON information systems per section 2224 of title 10, United States Code, OMB Circular A-130, and reference (a). PMs shall develop an acquisition IA strategy and summarize the acquisition IA strategy in the program's overall acquisition strategy.	IA Strategy (at Mile Stone A) Program Initiation for Ships, Milestone B, Milestone C, Full Rate Production Decision Review (FRPDR) or equivalent and it's prepared by PM and approved by DON CIO (ACAT I/IA/II) Command Information Operations (ACAT III/IV) (CHSENG).
<b>Information Management &amp; Stewardship</b> <ul style="list-style-type: none"> <li>Identifying Data and Technology that Support Acquisition Management Decisions</li> </ul>	<b>IA</b> Acquisition managers shall address IA requirements for all weapon systems, Command, Control, Communications, Computers, Intelligence, Surveillance, and	<b>Risk Area X</b> Improperly implementing standards and objectives could result in loss or release of relevant data/information.	<b>SECNAVINST 5000.2E Section 3.4 IA</b> PMs are responsible for ensuring that security requirements are addressed as part of the acquisition program. The PM	Clinger-Cohen Act Compliance (all IT - including NSS programs) (at Milestone A Program Initiation for Ships, Milestone B, Milestone C, FRPDR or Equivalent) and it's prepared by PM and approved by DoD CIO (ACAT IA), DON CIO (ACAT I/IA/II),



Cornerstones	Control Environment	Risk Assessment	Control Activities	Monitoring
<ul style="list-style-type: none"> <li>▪ Safeguarding the Integrity of Operations and Data</li> </ul>	Reconnaissance systems, and IT programs that depend on external information sources or provide information to other DoD systems. DoD policy for IA of IT, including NSS, appears in DoDD 8500.01E (Ref. DoDD 5000.01, E1.9).		shall develop, procure, and manage information systems throughout the life-cycle of the program using appropriate DoD approved IA controls and processes.	Command IO (ACAT III/IV) (CHSENG).
<b>Information Management &amp; Stewardship</b> <ul style="list-style-type: none"> <li>▪ Identifying Data and Technology that Support Acquisition Management Decisions</li> <li>▪ Safeguarding the Integrity of Operations and Data</li> </ul>	<b>IA</b> Acquisition managers shall address IA requirements for all weapon systems, Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance systems, and IT programs that depend on external information sources or provide information to other DoD systems. DoD policy for IA of IT, including NSS, appears in DoDD 8500.01E (Ref. DoDD 5000.01, E1.9).	<b>Risk Area X</b> Improperly implementing standards and objectives could result in loss or release of relevant data/information.	<b>CJCSI 6212.01F</b> This instruction is to: <ol style="list-style-type: none"> <li>Establish policies and procedures for developing, coordinating, reviewing, and approving IT and NSS Interoperability and Supportability (I&amp;S) needs.</li> <li>Establish procedures to perform I&amp;S Certification of JCIDS ACAT programs/systems.</li> <li>Establish procedures to perform I&amp;S Certification of Information Support Plans (ISPs) and Tailored ISPs for all ACAT, non-ACAT and fielded programs/systems.</li> <li>Define the five elements of the Net-Ready Key</li> </ol>	Information Support Plan (at Program Initiation for Ships, Milestone B and C) prepared by PM, approved by PEO/SYSCOM/DRPM, or designee.

Cornerstones	Control Environment	Risk Assessment	Control Activities	Monitoring
			<p>Performance Parameter (NR-KPP).</p> <p>e. Provide guidance for NR-KPP development and assessment.</p> <p>f. Establish procedures for the Joint Interoperability Test Command Joint Interoperability Test Certification.</p> <p>g. Add the requirement from Joint Requirements Oversight Council Memorandum 010-08, 14 January 2008, "Approval to Incorporate Data and Service Exposure Criteria into the I&amp;S Certification Process" for reporting of data and service exposure information as part of I&amp;S submissions.</p>	
<b>Information Management &amp; Stewardship</b> <ul style="list-style-type: none"> <li>Identifying Data and Technology that Support Acquisition Management Decisions</li> <li>Safeguarding the Integrity of</li> </ul>	<b>IA</b> Acquisition managers shall address IA requirements for all weapon systems, Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance systems, and IT	<b>Risk Area X</b> Improperly implementing standards and objectives could result in loss or release of relevant data/information.	<b>DON CIO Platform IT Policy Memorandum</b> This memorandum is to establish the DON IA Platform Information Technology and to establish guidance for implementing the DON Platform IT IA Guidance.	MDA at Acquisition Review Boards for Milestones A, B, C and FRPDR (as applicable). (NAVSEA)

Cornerstones	Control Environment	Risk Assessment	Control Activities	Monitoring
Operations and Data	programs that depend on external information sources or provide information to other DoD systems. DoD policy for IA of IT, including NSS, appears in DoDD 8500.01E (Ref. DoDD 5000.01, E1.9).		This instruction manual advises the whole DON on process implementation to ensure that PIT systems have appropriate IA capabilities, and that the IA objectives are documented and validated. This document also provides policy and guidance for incorporating IA into PIT for the DON.	

**Attachment 1: Consolidated Reporting Guide:**

During FY 2016, the DON performed a thorough review and analysis of the 54 material weaknesses reported on the FY 2015 Statement of Assurance (SOA). Based upon this review, multiple material weaknesses were consolidated to produce more streamlined reporting and tracking mechanisms. The tables below present the results of the consolidation.

<b>Description of Material Weakness as Reported in FY 2016</b>	<b>Responsible Component</b>
Obligations are not recorded in the General Ledger (GL) system within 10 days following obligation activity. The probable audit risk is that obligations may be understated in the financial statements.	DON
<b>Description of Material Weaknesses as Reported in FY 2015</b>	<b>Responsible Component</b>
Obligations are not recorded in the GL system within ten calendar days following obligating activity. The probable audit risk is obligations may be understated in the financial statements.	Navy
The United States Marine Corps (USMC)'s obligations are not recorded timely. There is no electronic posting interface with the Standard Accounting Budgeting Reporting System (SABRS) when joint contracts are awarded by Navy and external organizations (i.e., Army and Defense Contract Management Agency), which requires manual obligation posting.	USMC

Description of Material Weakness as Reported in FY 2016	Responsible Component
<p>No effective controls are in place to prevent unauthorized use of Transportation Account Codes (TAC) or prevent unauthorized shipments from occurring. Transportation Officers across DoD do not have the capability to determine if the shipping requestor is authorized to use the TAC cited on the shipping document or validate that sufficient funds are available prior to releasing for shipment. Additionally, interfaces among transportation and financial systems do not support exchange of all required transactional data. Navy standard document numbers may be altered as transportation transactions enter other services' financial and transportation systems.</p> <p>The majority of Transportation of Things (ToT) systems are owned by Transportation Service Providers and other services. These differences in system requirements result in lost or corrupted transference of data, increased risk of incorrect financial reporting, and extreme difficulty/inability to trace transactions from GL to source documentation. This results in transportation services being charged to the wrong organization which in turn, may lead to potential Anti-Deficiency Act (ADA) violations and misstatements in the lines of accounting.</p>	Navy
Description of Material Weaknesses as Reported in FY 2015	Responsible Component
<p>No effective controls are in place to prevent unauthorized use of TAC codes or prevent unauthorized shipments from occurring. Transportation Officers across the DoD do not have the capability to determine if the shipping requestor is authorized to use the TAC cited on the shipping document or validate sufficient funds are available prior to releasing for shipment. This results in Transportation services being charged to the wrong organization and/or line of accounting. In addition, this also results in over/understatement of the lines of accounting; which in turn, may lead to potential ADA violations. This issue aligns with the existence and occurrence; rights and obligations; and presentation and disclosure assertions.</p>	Navy
<p>Interfaces among transportation and financial systems do not support exchange of all required transactional data. Majority of ToT systems are owned by Transportation Service Providers and other services, and have not been included in the DON audit readiness systems and compliance testing efforts. Navy standard document numbers may be altered as transportation transactions enter other services' financial and transportation systems. These different system requirements result in lost or corrupted transference of data, and increased risk of incorrect financial reporting, and extreme difficulty/inability to trace transactions from GL to source documentation. This issue aligns with valuation, existence/completeness, and presentation and disclosure assertions.</p>	Navy

Description of Material Weakness as Reported in FY 2016	Responsible Component
There are insufficient standard internal controls and supporting documentation for real property and Construction In Progress (CIP).	DON
Description of Material Weaknesses as Reported in FY 2015	Responsible Component
The DON has insufficient standardized internal control and supporting documentation requirements. Lack of standardization has direct impact on timeliness and accuracy of CIP and real property transactions. Process and system deficiencies result in insufficient support for asset ownership and valuation.	Navy
DD Form 1354 (Transfer and Acceptance of Military Real Property) is improperly prepared and accepted. internet Navy Facilities Asset Data Store (iNFADS) is updated prior RP Accountable Officer approval. Costs were split over multiple facilities and not recorded on DD Form 1354. Costs are entered into iNFADS without supporting documentation.	USMC

Description of Material Weakness as Reported in FY 2016	Responsible Component
The DON cannot establish and/or support ownership and valuation of General Equipment (GE) due to lack of supporting documentation, improper interpretation of guidance, underutilization of the Accountable Property System of Record (APSR), and system limitations. In addition, the DON cannot substantiate that the APSR represents a complete inventory of GE assets. The inability to reconcile property accountability systems with financial systems equates to inaccurate asset disclosure and presentation.	DON
Description of Material Weaknesses as Reported in FY 2015	Responsible Component
The DON cannot establish and/or support ownership and valuation of GE due to lack of supporting documentation, improper interpretation of guidance, underutilization of the APSR, and system limitations. In addition, the DON cannot substantiate that the APSR represents a complete inventory of GE assets. The DON's assets included in the APSR does not reflect all ancillary costs or assign an accurate useful life. The DON's inability to reconcile property accountability systems with financial systems equates to an inaccurate asset disclosure and presentation.	Navy
The Marine Corps reported an understated amount on the balance sheet that cannot be supported by detailed transactions or capital asset listings.	USMC
Account discrepancies range from improper equipment nomenclature on account records. Failure to account for equipment impacts the organization's accountability.	USMC

Description of Material Weakness as Reported in FY 2016	Responsible Component
Lack of controls around Reimbursable Work Order – Grantor/Performer (RWO-G/P) process. The DON’s control environment is not designed and/or operating effectively to verify or validate RWO-G/P transactions are authorized, approved, properly posted, accurate, and complete. There is a potential audit risk that the DON’s financial statements do not accurately account for undelivered orders, accounts receivables, or year-end accruals, which could result in invalid and/or unauthorized transactions.	Navy
Description of Material Weaknesses as Reported in FY 2015	Responsible Component
The DON’s control environment is not designed and/or operating effectively to verify undelivered orders and accounts receivables represent valid transactions that are authorized and approved. There is a potential audit risk that the DON’s financial statements do not accurately account for undelivered orders or accounts receivables, which could result in invalid and/or unauthorized transactions (Grantor).	Navy
The DON’s control environment is not designed and/or operating effectively to verify undelivered orders and accounts receivables represent valid transactions that are authorized and approved. There is a potential audit risk that the DON’s financial statements do not accurately account for undelivered orders or accounts receivables, which could result in invalid and/or unauthorized transactions (Performer).	Navy
The DON’s control environment is not designed and/or operating effectively to verify unfilled reimbursable orders/authorizations are recorded completely and accurately.	Navy
The control environment is not designed and/or operating effectively to validate that recorded obligations are complete and accurate.	Navy
The control environment is not designed and/or operating effectively to verify the amount billed is valid and accurately recorded based on goods/services provided.	Navy
The control environment is not designed and/or operating effectively to verify recorded disbursements are valid and accurate.	Navy
The control environment is not designed and/or operating effectively to verify year-end accruals are accurately posted (Grantor).	Navy
The control environment is not designed and/or operating effectively to verify year-end accruals are accurately posted (Performer).	Navy



Description of Material Weakness as Reported in FY 2016	Responsible Component
Military Sealift Command (MSC) liquidations and payments lack supporting receipt and acceptance documentation for the USMC. Delivery confirmation documentation is not received from Defense Contract Management Agency (DCMA) as required.	USMC
Description of Material Weaknesses as Reported in FY 2015	Responsible Component
There is lack of supporting receipt documentation for MSC liquidations and payments.	USMC
There is missing or lost receipt and acceptance supporting documentation for the USMC. Marine Corps System Command Program Management Offices (PMOs) often do not receive delivery confirmation documentation from DCMA – authorized contracting officers, DoD – Distribution Management Offices, Service-PMOs, Fleet Marine Force (FMF) delivery points, non-FMF delivery points, and interim delivery points.	USMC

Description of Material Weakness as Reported in FY 2016	Responsible Component
The DON Systems have deficiencies in multiple Federal Information System Controls Audit Manual (FISCAM) domains to include access control, configuration management, system and information integrity, audit and accountability, system and service acquisitions, and identification and authorization.	DON
Description of Material Weaknesses as Reported in FY 2015	Responsible Component
There are internal control design and operating effectiveness deficiencies in multiple areas including access controls, configuration management, system and information integrity, audit and accountability, system and service acquisition, and identification and authentication for Naval Air Systems Command (NAVAIR)'s systems: Maximo, Standard Procurement System (SPS) – NAVAIR, Support Equipment Management System – Support Equipment Resource Management Information System, and Decision Knowledge Programming for Logistics Analysis and Technical Evaluation.	Navy
There are internal control design and operating effectiveness deficiencies in multiple areas including access controls, configuration management, system and information integrity, audit and accountability, system and service acquisition, and identification and authentication for Naval Facilities Engineering Command (NAVFAC)'s systems: iNFADS, SPS – NAVFAC, Expeditionary Management Information System, Facilities Information System, and Comprehensive Utilities Information Tracking System.	Navy
There are internal control design and operating effectiveness deficiencies in multiple areas including access controls, configuration management, system and information integrity, audit and accountability, system and service acquisition, and identification and authentication for Naval Sea Systems Command (NAVSEA)'s systems: SeaPort, SPS – NAVSEA, Standard Labor Data Collection and Distribution Application, Material Access Technology – Mission Funded, and Shipyard Management Information System – Cost Application.	Navy
There are internal control design and operating deficiencies in multiple areas including access controls, configuration management, system and information integrity, audit and accountability, system and service acquisition, and identification and authentication for systems of Department of the Navy Assistant for Administration (DON/AA), Naval Supply Systems Command (NAVSUP), Commander, Navy Installations Command (CNIC), Commander, U.S. Pacific Fleet (PACFLT), Special Warfare Command, and Office of Civilian Human Resources: Program Budget Information System, Command Financial Management System (CFMS) – CNIC, CFMS – PACFLT, Special Warfare Automated Logistics Information System, Defense Civilian Personnel Data System, and Integrated Technical Item Management and Procurement.	Navy

There are internal control design and operating effectiveness deficiencies in multiple areas including access controls, configuration management, system and information integrity, audit and accountability, system and service acquisition, and identification and authentication for Space Naval Warfare Systems Command (SPAWAR)'s systems: SPS – SPAWAR, Reserve Headquarters Support, Reserve Integrated Management System – Financial Management, Navy Standard Integrated Personnel System, Officer Personnel Information System, Navy Enlisted System, Navy Enterprise Resource Planning, and Navy Reserve Order Writing System.	Navy
The deficiencies for SABRS span multiple control categories defined in the Government Accountability Office (GAO) FISCAM, including application level general controls, business process controls, interface and data management system controls.	USMC
The deficiencies for Marine Corps Total Force System (MCTFS) span across multiple control categories defined in the GAO FISCAM, including application level general controls, business process controls, system interfaces, and data management system controls.	USMC

Description of Material Weakness as Reported in FY 2016	Responsible Component
Standard Accounting and Reporting System – Field Level (STARS-FL) deficiencies including interface issues, business process transaction policy, procedures, and documentation issues along with master data issues.	Navy
Description of Material Weaknesses as Reported in FY 2015	Responsible Component
Interface strategy and design of STARS-FL: Not all interfaces have approved strategy for the application.	Navy
Interface processing procedures – STAR-FL: Memorandums of Agreement do not fully document method to secure data during the transfer of interface files.	Navy
Business process transaction data input – STAR-FL: Insufficient policies outlining source documentation, input file data collection, and input preparation and entry into application.	Navy
Business process transaction data processing – STAR-FL: No procedures to document how process errors should be identified, logged, and resolved. Allows for duplicate transactions.	Navy
Business process transaction data output – STAR-FL: No documentation of key reports used to track processing results.	Navy
Business process master data – STARS-FL: Master Data additions, deletions, and changes not properly managed or monitored by data owners; management cannot ensure Master Data is complete and valid.	Navy

**Attachment 2: Acronym List:**

<b>Acronym</b>	<b>Term</b>
AAI	Agency Accounting Identifier
ACAT	Acquisition Category
ACMC	Assistant Commandant Marine Corps
ADA	Anti-Deficiency Act
APSR	Accountable Property System of Record
ASN (EI&E)	Assistant Secretary of the Navy for Energy, Installations, and Environment
ASN (FM&C)	Assistant Secretary of the Navy for Financial Management and Comptroller
ASN (M&RA)	Assistant Secretary of the Navy for Manpower and Reserve Affairs
ASN (RD&A)	Assistant Secretary of the Navy for Research, Development, and Acquisition
AU	Assessable Unit
BMS	Business Management System
BPC	Building Partner Capacity
BPI	Business Process Improvement
BSO	Budget Submitting Office
BTS	Business Transaction Systems
BUMED	Navy Bureau of Medicine and Surgery
BUPERS	Bureau of Navy Personnel
CAP	Corrective Action Plan
CCB	Change Control Board
CD&I	Combat Development and Integration
CHINFO	Chief of Information
CHSENG	Chief Systems Engineer
CIO	Chief Information Officer
CIP	Construction in Progress
CJCSI	Chairman of the Joint Chiefs Staff Instruction
CMC	Commandant of the Marine Corps
CMOS	Cargo Movement Operations System
CNIC	Commander, Navy Installations Command
CNO	Chief of Naval Operations
COMOPTEVFOR	Commander, Operational Test and Evaluation Force
COR	Contracting Officer's Representative
CSB	Configuration Steering Board
CUEC	Complementary User Entity Control
DASN (AP)	Deputy Assistant Secretary of the Navy (Acquisition and Procurement)
DASN (FO)	Deputy Assistant Secretary of the Navy (Financial Operations)

Acronym	Term
DAWIA	Defense Acquisition Workforce Improvement Act
DCMA	Defense Contract Management Agency
DCNO	Deputy Chief of Naval Operations
DD Form	Department of Defense Form
DDRS	Defense Departmental Reporting System
DDRS-AFS	Defense Departmental Reporting System – Audited Financial Statements
DDRS-B	Defense Departmental Reporting System – Budgetary
DFARS	Defense FAR Supplement
DFAS	Defense Finance and Accounting Service
DFM	Director of Financial Management
DIACAP	Department of Defense Information Assurance Accreditation and Certification Process
DoD	Department of Defense
DoDD	Department of Defense Directive
DoDI	Department of Defense Instruction
DoDIG	Department of Defense Inspector General
DON	Department of the Navy
DON/AA	Department of the Navy Assistant for Administration
DRPM	Direct Reporting Program Managers
DUSN (M)	Deputy Under Secretary of the Navy (Management)
DUSN (P)	Deputy Under Secretary of the Navy (Policy)
ECP	Engineering Change Proposal
EDS	Electrical Distribution System
EPR	Enterprise, Prioritization, and Remediation
ERM	Enterprise Risk Management
ERP	Enterprise Resource Planning
ESAMS	Enterprise Safety Application Management System
ESB	Enterprise Service Bus
EVMS	Earned Value Management System
FAD	Funding Authorization Documents
FAR	Federal Acquisition Regulation
FBwT	Fund Balance with Treasury
FFC	Fleet Forces Command
FFMIA	Federal Financial Management Improvement Act
FIAR	Financial Improvement and Audit Readiness
FISCAM	Federal Information System Controls Audit Manual
FISWG	Financial Information System Working Group
FM	Financial Management

Acronym	Term
FMB	Office of Budget
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMO	Office of Financial Operations
FMP	Office of Financial Policy and Systems
FMR	Financial Management Regulation
FMS	Foreign Military Sales
FRC	Fleet Readiness Center
FRBB	Federal Reserve Bank of Boston
FRD	Fund Receipt and Distribution
FRPDR	Full Rate Production Decision Review
FSA	Field Support Activity
FY	Fiscal Year
GAO	Government Accountability Office
GE	General Equipment
GE-R	General Equipment Remainder
GEX	Global Exchange
G-Invoicing	Government Invoicing
GL	General Ledger
GLAS	General Ledger Accounting Systems
GSA	General Services Administration
HNEMWG	Hazardous Noise Exposure Mitigation Working Group
HQMC	Headquarters Marine Corps
I&S	Interoperability and Supportability
IA	Information Assurance
IBR	Integrated Baseline Review
ICOFR	Internal Controls over Financial Reporting
ICOFS	Internal Controls over Financial Systems
ICONO	Internal Controls over Non-Financial Operations
iNFADS	internet Navy Facilities Asset Data Store
IPA	Independent Public Auditor
IPIA	Improper Payments Information Act
IPP	Invoice Processing Platform
IPT	Integrated Product Team
ISCM	Information System Continuous Monitoring
ISP	Information Support Plan
IT	Information Technology
IV&V	Impartial Verification and Validation
JCIDS	Joint Capabilities Integration and Development System
JV	Journal Voucher

Acronym	Term
KSD	Key Supporting Document
LANT	Atlantic
LSA	Logistics Support Area
MAC	Moving Average Cost
MAIS	Major Automated Information System
MAO	Managerial Accounting Office
MARFORCOM	Marine Corps Forces Command
MAU	Major Assessable Unit
MCSC	Marine Corps System Command
MDA	Milestone Decision Authority
MDAP	Major Defense Acquisition Program
MHA	Major Headquarters Activity
MIC	Managers' Internal Control
MICP	Managers' Internal Control Program
MILCON	Military Construction
MILPAY	Military Pay
MILSTRIP	Military Standard Requisitioning and Issue Procedures
MOE	Measures of Effectiveness
MSC	Military Sealift Command
N00N	Naval Nuclear Propulsion Program
NAE	Naval Acquisition Executive
NAVADMIN	Naval Administrative
NAVAIR	Naval Air Systems Command
NAVAUDSVC	Naval Audit Service
NAVFAC	Naval Facilities Engineering Command
NAVINSGEN	Naval Inspector General
NAVSEA	Naval Sea Systems Command
NAVSUP	Naval Supply Systems Command
NAWC TSD	Naval Air Warfare Center Training Systems Division
NCB	Naval Capabilities Board
NCCA	Naval Center for Cost Analysis
NCIS	Naval Criminal Investigative Service
NDAA	National Defense Authorization Act
NEPA	National Environmental Policy Act
NETOPS	Naval Engineering Training and Operating Procedure and Standard
NFR	Notice of Findings and Recommendations
NIA	Naval Intelligence Activity
NIST	National Institute of Standards and Technology
NMCARS	Navy Marine Corps Acquisition Regulation Supplement



Acronym	Term
NPS	Naval Postgraduate School
NR-KPP	Net-Ready Key Performance Parameter
NSMA	Navy Systems Management Activity
NSS	National Security Systems
OGC	Office of General Counsel
OJAG	Office of Judge Advocate General
OLA	Office of Legislative Affairs
OM&S	Operating Materials and Supplies
OMB	Office of Management and Budget
OMN	Operation and Maintenance, Navy
ONR	Office of Naval Research
OPNAV	Office of the Chief of Naval Operations
OPNAVINST	Office of Naval Operations Instruction
OPR	Office of Primary Responsibility
OSBP	Office of Small Business Programs
OSD	Office of the Secretary of Defense
OT&E	Operational Training and Evaluation
OUSD (AT&L)	Office of the Under Secretary of Defense (Acquisition, Technology and Logistics)
PACFLT	Commander, U.S. Pacific Fleet
PBIS	Program Budget Information System
PCO	Procurement Contracting Officer
PDM	Program Decision Meeting
PEO	Program Executive Office
PII	Personally Identifiable Information
PMB	Performance Measurement Baseline
PMO	Program Management Office
QA	Quality Assurance
R3B	Resources & Requirements Review Board
RDAIS	Research, Development and Acquisition Information System
RESFOR	Commander, Navy Reserve Force
RMF	Risk Management Framework
RMI	Risk Management Information System
ROA	Risk and Opportunity Assessment
RWO-G/P	Reimbursable Work Order – Grantor/Performer
SABRS	Standard Accounting Budgeting Reporting System
SAE	Service Acquisition Executive
SAO	Senior Accountable Official
SAT	Senior Assessment Team

Acronym	Term
SBA	Schedule of Budgetary Activity
SCR	System Change Request
SDM	Ship Depot Maintenance
SECNAV	The Secretary of the Navy
SECNAVINST	Secretary of the Navy Instruction
SES	Senior Executive Service
SETR	Systems Engineering Technical Review
SFFAS	Statement of Federal Financial Accounting Standards
SFIS	Standard Financial Information Structure
SLA	Service Level Agreement
SMC	Senior Management Council
SME	Subject Matter Expert
SOA	Statement of Assurance
SOC	Service Organization Control
SOD	Segregation of Duty
SOP	Standard Operating Procedure
SPAWAR	Space and Naval Warfare Systems Command
SPECWAR	Naval Special Warfare Command
SPTU	Single Point Transaction Universe
SRRB	Service Requirements Review Board
SSN	Social Security Number
SSP	Shared Service Provider
STARS - FL	Standard Accounting and Reporting – Field Level
SYSCOM	Systems Commands
TA	Technical Authority
TAC	Transportation Account Codes
TAR	Triannual Review
TFM	Treasury Financial Manual
ToT	Transportation of Things
U.S.C	United States Code
UAE	Uninstalled Aircraft Engines
ULO	Unliquidated Obligation
USFF	United States Fleet Forces
USMC	United States Marine Corps
USSGL	United States Standard General Ledger
VCNO	Vice Chief of Naval Operations
VISTA	Visual Inter-fund System Transaction Accountability
WAWF	Wide Area Work Flow

### **Attachment 3: Points of Contact:**

The Department of the Navy (DON) points of contact for the Managers' Internal Control Program and issues dealing with material weaknesses reported in the DON's Fiscal Year 2016 FMFIA Statement of Assurance are:

- Ms. Karen Fenstermacher, Deputy Assistant Secretary of the Navy (Financial Operations). Ms. Fenstermacher may be reached at (202) 685-6701, or by email at karen.fenstermacher@navy.mil.
- CAPT Milton Troy, SC, USN, ASN (FM&C)/FMO-4. CAPT Troy may be reached at (202) 433-9228, or by email at milton.troy@navy.mil.
- Mr. Eric Kravchick, ASN (FM&C)/FMO-4. Mr. Kravchick may be reached at (202) 433-9224, or by email at eric.kravchick@navy.mil.

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FEDERAL MANAGERS'  
FINANCIAL INTEGRITY ACT  
STATEMENT OF ASSURANCE  
FY 2016



DEPARTMENT OF THE NAVY

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